

**INVESTMENT BANKERS TO THE PUBLISHING, INFORMATION, EXPOSITION AND SOFTWARE INDUSTRIES**

## **Pace Of Consolidation To Quicken In Second Half**

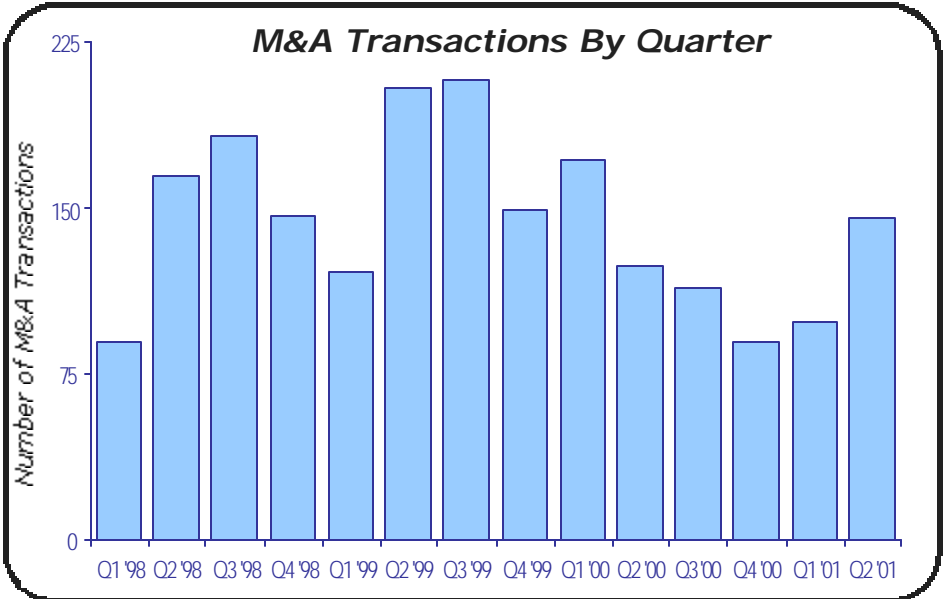
Buyers spent \$12.7 billion to acquire 145 media and information industry properties in the three months ended June 30, 2001, a 17 percent increase over the 124 mergers and acquisitions in the second quarter of 2000. This second quarter 2001 activity reflected a 48 percent increase over the 98 transactions in the first quarter of the year.

Focused on cutting costs and increasing cash flow from existing core assets, many strategic media companies acquired assets related to their core properties while shedding non-core assets. Companies with three or more announced deals in the first half of 2001 included Advance Publications, dmg world media, Penton Media, PRIMEDIA, Pulitzer Newspapers, Taylor Nelson, Thomson, Transwestern Publishing and Wolters Kluwer. "Chief executives of major media companies are in search of deals that will provide readily identifiable synergies and significant cost savings," noted Wilma Jordan, Founder and CEO of The Jordan, Edmiston Group, Inc. and JEGI Capital.

### **Impact of Business-Led Slowdown**

The impact of the current business-led slowdown is evident in the ten largest media and information M&A transactions during the first half of 2001. No business-to-business deals made the top 10 list, although M&A activity in the trade show and conference sector doubled over first half 2000 levels. Consumer directory, professional and educational book and consumer special-interest magazine publishing sectors accounted for the top six deals. Each of these sectors has been insulated from the ongoing economic slowdown, in contrast to the sharp swings in advertising that have impacted business-to-business and general-interest consumer media and

**"M&A activity in the media and information industry has rebounded in the second quarter of 2001, and we anticipate that this upward trend will continue into the second half of the year," said Wilma Jordan, CEO of Jordan Edmiston and JEGI Capital.**



information industry companies. "Many consumer-oriented businesses are still seeing reasonably strong demand," said Jordan Edmiston Chief Operating Officer Bill Hitzig. "Even though most special-interest consumer publications are dependent on advertising, their ad page levels have declined less than they have for B2B publications."

### **Demand Remains Strong for Consumer Orientated Publications**

M&A activity in the consumer magazine sector in the first half of 2001 has mainly involved special-interest properties, a reflection of the growing demand in the media marketplace for products that target individual interests and generate a loyal following. Strategic acquirers were responsible for many of the announced consumer magazine deals of the first half of 2001, which included PRIMEDIA's acquisition of EMAP USA, publisher of *Motor Trend*, *Guns & Ammo*, *Hot Rod* and *Skin Diver* magazines, for \$515 million; Advance Publications' acquisition of The New York Times Company's magazine group, including *Golf Digest* and *Golf World*; and AOL Time Warner's acquisition of Imagine Media's *Business 2.0* new economy magazine for \$68 million plus contingent payments based on future revenues.

"Although many consumer media properties have experienced demands from advertisers for more favorable deals, categories such as pharmaceutical advertising are likely to

be up 25%+ this year," noted Hitzig. "And, we expect many of the consumer advertising categories that have experienced a downturn this year, such as financial services, advertising/marketing and retail, to rebound as the economy improves through the second half of 2001."

### **Attractive Margins and Predictable Cash Flows**

M&A activity involving consumer directory publishers has increased, as publishers made acquisitions to fill gaps in their market coverage. Buyers looked favorably on the sector's predictable cash flows, healthy margins and continuing opportunities for consolidation. Total deal value in the consumer directory sector soared to \$4.2 billion in first half of 2001, up from \$919 million a year ago and led by Hicks, Muse Tate & Furst's \$3 billion acquisition of British Telecom's U.K. and U.S. Yellow Pages.

### **Consolidation Drives M&A Activity in the Internet Media Sector**

Internet media companies no longer have "overvalued" equity with which to buy assets or enter new markets, but they face a strong imperative to consolidate to "survive" in the marketplace. INT Media Group, iVillage.com and CNET Networks have turned their strategic focus to gaining market share. Vertically focused and proprietary-content Web sites have

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## Pace of Consolidation continued

become the most sought after Internet properties as the value of broad-based Web sites with large page view and unique visitor numbers has diminished. Acquisition-minded media companies such as PRIMEDIA, Vivendi Universal, TMP Worldwide and Martha Stewart Living Omnimedia have consolidated their leading category positions across multiple media platforms. M&A deal volume and dollar value in the Internet online media sector declined 25% from 89 to 67 deals and 68% from \$16.9 billion to \$5.5 billion in the first half of 2001.

## Activity Slows as Second Shakeout Looms Over the Book Publishing Sector

With the shakeout among retail bookstores of a few years ago still a vivid memory, many book publishers are cutting their operating expenses in response to the growing quantity of unsold books returning from bookstores. Total deal volume in the consumer book-publishing sector declined from 18 to 7 deals in the first half of 2001. Deal value declined 79% to \$208 million from \$1 billion in the first-half of 2001. "In the last few years, soaring sales at online bookstores have led book publishers to raise growth expectations and target publishing properties with strong backlists," said Hitzig. "Now, growing return levels are giving many publishers a harsh dose of the new reality."

## Strategic Acquisitions Fuel Increased Newspaper Deal Volume

Despite a decline in operating performance, the newspaper publishing sector witnessed 45 deals in the first half of 2001, nearly double the number in the first half of 2000. At the same time, the aggregate deal value declined to less than \$500 million from over \$11 billion in the first half of 2000, when a handful of multi-billion dollar acquisitions, including Tribune Company's \$5.2 billion purchase of Times Mirror, were completed.

A number of newspaper publishers continued to acquire new Web sites to complement their existing online and offline offerings. However, almost two thirds of the M&A activity initiated by newspaper publishers involved the acquisition of weekly newspaper chains, as newspaper owners sought to improve their performance by capitalizing on economies of scale and improved market efficiencies. Active acquirers included many of the industry's leading publishers, including Community Holdings, Herald Media, Journal Register Company, MediaNews Group, Ogden Newspapers, Pulitzer Newspapers and Rust Communications.

## Business-to-Business Magazine M&A Activity Declines by 30 Percent

In the trade magazine sector, M&A deal volume fell 30 percent to 16 deals while deal value declined 29 percent to \$169 million in first half 2001. Strategic media companies were the most active buyers. By targeting 'bolt-on' acquisitions, diversified media companies such as Penton Media and Cygnus Business Media were able to enhance their core market positions. Cahners Business Information and Thomson

## Media and Information Industry M&A Activity 2001

	1H 2000		1H 2001		% Difference	
	No. of Deals	Amount (\$MM)	No. of Deals	Amount (\$MM)	No. of Deals	Amount (\$MM)
Consumer Magazines	27	\$1,737.0	22	\$1,445.2	-18.5%	-16.8%
Directory Publishing	6	919.0	12	4,247.2	100.0%	362.2%
Internet Online Media	89	16,885.8	67	5,487.8	-24.7%	-67.5%
Consumer Books	18	1,013.1	7	208.0	-61.1%	-79.5%
Newspaper Publishing	24	11,275.9	45	430.5	87.5%	-96.2%
Business-to-Business Magazines	23	236.8	16	169.1	-30.4%	-28.6%
Conference & Trade Shows	14	73.1	28	530.7	100.0%	625.0%
Database Information Services	26	3,875.9	19	345.3	-26.9%	-91.1%
Newsletter Publishing	16	59.2	12	31.6	-25.0%	-46.6%
Educational & Professional Publishing	13	728.1	15	2,428.9	15.4%	233.6%
<b>Total</b>	<b>256</b>	<b>36,803.9</b>	<b>243</b>	<b>15,324.3</b>	<b>-5.1%</b>	<b>-58.4%</b>

Note: Analysis omits the \$106 billion AOL Time Warner deal, the size of which is so large as to obscure meaningful trends.

Corporation were active in divesting non-core business-to-business trade publishing

assets. In contrast, during the first half of 2000, there were 23 M&A deals valued at \$237 million. One of the reasons for the decline in trade publishing M&A activity is the shift in focus by business-to-business media companies to the acquisition of other types of media, including trade shows, conferences, databases and online information products and services.

## Torrid Pace of Trade Show and Conference Sector M&A Continues

Trade shows and conferences, like vertically-focused information businesses, are strong franchises that usually come with predictable cash flows and healthy margins. Those characteristics have made them attractive targets for acquisition-minded media companies looking to provide a full suite of integrated marketing opportunities to their core customers through vertical integration. The number of deals and total deal value in this sector doubled to 28 and exceeded \$500 million in aggregate value during the first half of 2001. In fact, trade show and conference properties commanded some of the highest prices despite an average transaction size of \$19 million during the first half of 2001. Acquirers with two or more announced deals included dmg world media, Imark Communications, Penton Media, Reed Exhibition Companies and Veronis Suhler through its affiliate portfolio companies Canon Communications and Hanley-Wood.

## Increased Globalization is Spurring Ongoing Consolidation of Niche Business Information Markets

Increased globalization continued to spur demand for global coverage in niche business information markets. Usually, the more customized and specific the information, the greater its value is to the user. There were a total of 19 M&A transactions in this market sector in the first half of 2001, a 27 percent decline from the first half of 2000. Industry leaders, such as Dun & Bradstreet, Taylor Nelson, Thomson and Wolters Kluwer, seeking to enhance growth and offer best-in-class information

services, were active in acquiring entrepreneurial niche market-information companies.

## Newsletter Industry M&A Mirrors Overall B2B Sector Slowdown

In the newsletter publishing sector, M&A deal volume and deal value declined 25 percent and 47 percent, respectively. Active buyers included Advisory Publications, M. Lee Smith Publishers, Opus Communications and Wolters Kluwer.

## Educational and Professional Publishing M&A Deal Value and Dollar Volume Boosted By Strategic Acquisitions

M&A dollar value rose by 233 percent and deal volume increased by 15 percent on the strength of Vivendi Universal's \$2.2 billion acquisition of Houghton Mifflin and strategic acquisitions by information industry companies such as Information Holdings, The McGraw-Hill Companies, MediZine and Wolters Kluwer.

Looking ahead, M&A activity in the business-to-business media and information industry is poised to return to prior year levels. This positive outlook hinges on companies, such as Advanstar Communications, Key3Media, Penton Media and PRIMEDIA, completing corporate debt offerings. "M&A activity follows financing. So once the infusion of capital into these business-to-business diversified media companies is complete, the next logical move for them will be to look for strategic bolt-on acquisitions," said Jordan Edmiston Managing Director Richard Mead.

In addition to the capital infusion from the current debt offerings, several industry leaders have announced plans to divest non-core assets. Companies that announced divestiture plans included Thomson Corporation, with the sale of its financial group of business publications; Pearson, with the sale of its FT Energy business information division; Hearst Corporation, with the sale of its Medi-Span database information business; PRIMEDIA with the sale of non-core properties related to its acquisition of EMAP USA; and Reed Exhibition Companies.

## Mastering Multi-channel Marketing

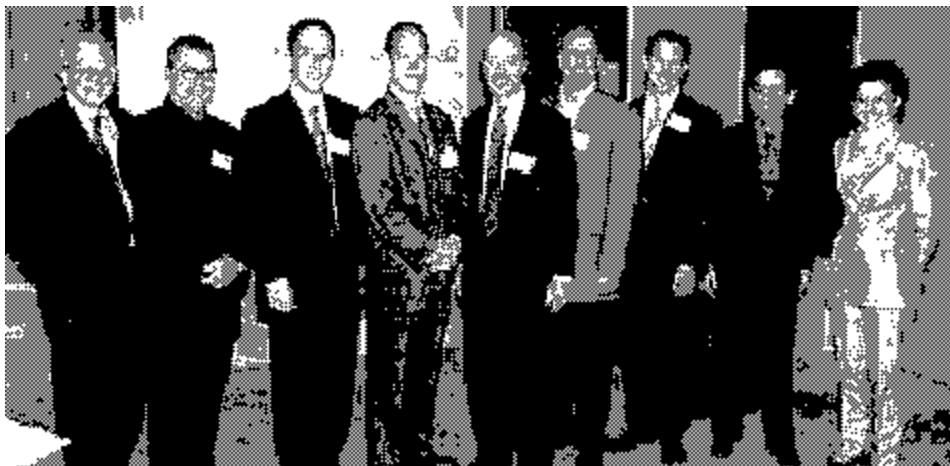
A panel of experienced e-business media executives gathered in New York last month for the second JEGI Capital Executive Forum, which focused on the benefits, risks and imperatives of multi-channel marketing. "JEGI Capital sponsors its Executive Forum Series to bring top media executives together with entrepreneurs and technology innovators to discuss how new information and communications technologies will impact the future of media," said Tom Crowley, JEGI Capital's Managing Partner. Held at the Four Seasons Hotel, Mastering Multi-channel Marketing in the Media Industry was co-sponsored by eLogic Corp., a leading Web site and e-commerce development and marketing firm.

Multi-channel marketing is an important initiative that media companies both old and new are struggling to master, according to the panel's moderator, Michael J. Wolf, director of McKinsey & Company's Media & Entertainment Group. Wolf, who is the author of *The Entertainment Economy: How Mega-Media Forces Are Transforming Our Lives*, cited Procter & Gamble and Viacom's recent \$300 million cross-platform marketing agreement; *Time* and *Oprah* magazines' successful use of the Internet to boost subscription sales; and CNBC and Martha Stewart Living Omnimedia's effectiveness in becoming truly multimedia brands, as other examples of the major winds of change blowing through the media industry. "In terms of multi-channel marketing, the potential is enormous," Wolf said. "But it won't be easy. Most media companies don't have the culture to do this. It's expensive, and many organizations don't have a clue how to pull it off."

Addressing the do's and don'ts of multi-channel marketing was a panel that included: David Toth, President and CEO of NetRatings Inc., a global leader in Internet media and market research; Charles C. Koones, Publisher of *Variety* and *Variety.com*, an entertainment industry magazine and Web site; James Sherman, CEO of WestEnd New Media, an Internet strategy consulting firm; and Kent Hawryluk, a Partner at JEGI Capital. In his keynote speech, Bill Nash, Founder and President of eLogic Corp., spelled out the goals and means of successful technology-driven marketing plans. "Online technologies allow you to cross-sell and get more value out of each customer," Nash said. "The challenge is to integrate sales, service, manufacturing, marketing and the back office so that you capture the sale regardless of the channel."

A variety of forces are making multi-channel marketing increasingly important and attractive, the panelists said. First, multiple channels allow marketers to reach, engage and communicate with their customers with greater frequency,

## JEGI Capital Executive Forum Meets



A panel of experienced e-business media executives gathered in New York last month for the second JEGI Capital Executive Forum, which focused on the benefits, risks and imperatives of multi-channel marketing. (From left) Tom Crowley, Managing Partner, JEGI Capital; Bill Nash, Founder and President, eLogic Corp.; James Sherman, CEO, WestEnd New Media; Charles C. Koones, Publisher, *Variety* and *Variety.com*; David Toth, President and CEO of NetRatings Inc.; Dan Kempa, Vice President, eLogic Corp.; Kent Hawryluk, General Partner, JEGI Capital; Michael Wolf, Director, McKinsey & Company's Media & Entertainment Group; and Wilma H. Jordan, Founder and CEO, The Jordan, Edmiston Group, Inc. and JEGI Capital.

over an extended period of time. "Companies are looking to capture customers and extract more value out of them over time," said NetRatings' Toth. JEGI Capital's Hawryluk agreed, as did *Variety*'s Koones, who said, "By using other media, we're able to cast a wider net and generate more revenue from the people we're already doing business with."

Second, the proliferation and fragmentation of media have made it more difficult for companies to address a large audience through one medium as they could in the past. "No medium can attract the audience that it could before," said WestEnd's Sherman. "So now there is pressure to use a variety of media to communicate an offer." And third, the "dot-com crash" and U.S. economic slowdown have created the opportunity for better-financed players to consolidate their competitive positions. "This is the best time to get market share, when everyone's licking their wounds," eLogic's Nash said.

As events during the past year have shown, successful deployment of multi-channel strategies is not without its risks. "All of this costs a lot of money, and implementing it is a real challenge," *Variety*'s Koones said. "It's really about what does our marketplace need and what will it pay for." WestEnd's Sherman also cited multi-channel marketing initiatives that can hurt a company's image or dilute its brand. "With online marketing technologies such as e-mail, one of the downsides is that you can create negative customer equity," he said, citing TheStreet.com's aggressive e-mail update/subscription campaign that began several years ago. "You need to understand how often you should be communicating with your customers or prospects."

Adopting the right technology

enhancement at the right time is also important. "There's a balance you want to keep between getting swept up in the technology hype and doing what's good for your business," *Variety*'s Koones said. As an example, he questioned whether movie studios should be pushing vigorously for "video-on-demand" when they are currently enjoying robust movie sales from digital video discs. That is a lesson companies are learning from the much-ballyhooed wireless Web, which has required enormous investment but has so far delivered little return. Even Japan's NTT DoCoMo, one of the most visible and profitable examples of a successful mobile Internet access initiative, is experiencing "very small" usage among its customers, said NetRatings' Toth.

Panelists were upbeat in their assessment of the Internet's role in multi-channel marketing. While CPM rates may still be falling, overall advertising on the Web is increasing, said eLogic's Nash. "The pie is getting larger," he said. "It's still a very viable format." WestEnd's Sherman said the Internet can play a key role in customer acquisition and retention and can also help in building brand awareness. "I think online advertising is here to stay, and it's going to grow," he said. At the same time, he added, marketers should use metrics that best gauge the success of their initiatives. As an example, Sherman said a cost-per-lead metric is a better measure than a "click-through" rate, since the latter doesn't explain what consumers do once they've arrived at the site.

However companies choose to deploy multi-channel marketing strategies, JEGI's Hawryluk said, they should do so "keeping in mind the ROI and what fits best with their business."

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