THE JORDAN, EDMISTON GROUP, INC.

Client Briefing

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

JEGI Brain Trust Advisory Board Meets

JEGI Capital hosted its third Braintrust Advisory Board meeting at the Four Seasons restaurant in March. (From left), Tom Crowley, Managing Partner of JEGI Capital; Gerald Hobbs, Chairman and CEO of VNU; Lord Rothermere, CEO, Daily Mail and General Trust; Wilma Jordan, CEO of The Jordan, Edmiston Group and JEGI Capital; and Kent Hawryluk, General Partner, JEGI Capital.

Traditional Media M&A Rebounds

Highlights

▸ The total value of magazine M&A transactions in January & February 2001 increased 25% over 2000's level despite a decline in total number of deals.

▸ The overall number of media deals and aggregate deal value decreased markedly from January & February 2000 to January & February 2001.

▸ Overall acquisition activity has slowed periodically due to concerns about the health of the economy and tighter debt markets.

Media companies are focusing their acquisition strategies around traditional media properties, especially in the magazine and tradeshow industries. There were 67 mergers and acquisitions among media industry companies in the US in the first two months of 2001, with a total aggregate value of $1.8 billion. The largest media industry M&A deals took place in traditional media sectors with Advance Publication's $350 million acquisition of The New York Times Company's Magazine Group, which includes *Golf Digest* and related properties, and Herald Media's $150 million acquisition of Community Newspaper Company, a group of local newspapers published throughout the Atlantic region.

The industry's return to traditional media M&A activity is no more evident than in the recent investment by Disney in *Us Weekly* magazine, a weekly consumer magazine, on the heels of closing the doors to Go.com, an Internet portal.

"With the likelihood of further decreases in interest rates by the Federal Reserve and lower market valuations following a broad market sell-off, Jordan Edmiston expects the pace of consolidation in the media sector to accelerate in the second and third quarters of 2001," said Wilma Jordan, CEO of Jordan Edmiston and JEGI Capital.

The high valuations placed on Internet companies have disappeared. Total Internet company transaction value dropped from $2.3 billion in January and February 2000 to $0.75 billion over the same period of 2001. With lower valuations and easing debt mar-

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Private Equity Investors Transform Media M&A

Vast Pool of Committed Capital Waiting to be Unleashed

More and more private equity buyers have joined traditional media companies in seeking media investments that will produce attractive returns. Most of the notable M&A transactions in the past five years have involved private equity investors, resulting in higher valuations for sellers. In 2000, competitive auctions won by private equity firms included Veronis Suhler's acquisition of Phillips Business Information; DLJ Merchant Banking Partners' acquisition of Advanstar Communications; Boston-based ABRY Partners' acquisition of Cygnus Business Media and Bariston Partners' acquisition of PRIMEDIA's directories.

Seventy-four private equity funds raised capital for media buyouts and acquisitions in 2000, the same number as in 1999. However, capital commitments increased from $24.8 billion to $47.7 billion in 2000. In the media industry, the pace of mergers and acquisitions, declined as private equity investors made only 32 media industry acquisitions down 44% from 1999's total of 57 media purchases. Total aggregate media industry deal volume dropped 56% from $4.5 billion in 1999 to $2.0 billion.

Private equity investors cited a combination of interlocking factors for last year's decline in deal activity. Debt financing, an essential ingredient of leveraged transactions, was more difficult to secure, as banks generally lowered leverage limits from five times an acquisition target's trailing twelve month cash flow, available at the start of 2000, to as little as three times cash flow. This change, in turn, forced private equity buyers to choose between investing more equity capital, which would lower their return on investment, or lowering their bid prices, which makes it more challenging for them to compete successfully in auctions against larger diversified media companies.

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Tom Rogers Speaks at JEGI CEO Forum

When the dust settles from its recent acquisitions and investments, PRIMEDIA, Inc. will be one of only two large-scale hybrid print-online media companies - the other being AOL-Time Warner, Tom Rogers, the company's chairman and chief executive officer told a gathering of senior executives at a January CEO Forum held by The Jordan, Edmiston Group, Inc.

And that's a position Tom Rogers is clearly excited about, even if Wall Street hasn't yet endorsed Mr. Rogers' latest moves with an increase in the company's stock price.

Since, the former NBC executive was hired in the fall of 1999, Mr. Rogers has taken several bold steps to improve PRIMEDIA's fortunes, including restructuring its special-interest publications unit, acquiring About. Inc. in the fall of 2000, and, in January 2001, creating Media Central, a new b-to-b subsidiary that combines PRIMEDIA's 172 media industry properties under the leadership of Steven Brill, founder of Brill's Content and Contentville.com. At the same time, PRIMEDIA acquired a 49% interest in Brill Media Holdings LP.

While recent indications of an economic slowdown might seem to complicate Mr. Rogers efforts to guide the company to improved performance, he said PRIMEDIA was better positioned than most media companies to weather economic turbulence because of the high proportion of its advertising revenue that comes from endemic advertising.

Endemic advertising is specific advertising to sell a product that directly matches the content of the medium in which the advertisement resides. Brand advertising is more likely to be cut than endemic advertising during an economic downturn, he said. Mr. Rogers described endemic advertising as the "bread-and-butter" of PRIMEDIA, a mainstay in their topic-specific content publications. PRIMEDIA's goal is to drive more endemic advertising to the Internet with the About.com acquisition.

Optimistic about PRIMEDIA's prospects for a successful integration of properties, Mr. Rogers proclaimed that "while others are retrenching, particularly with respect to new media and Internet operations, we are aggressively building out our carefully constructed model, based at its heart on the fact that we have a very distinctive revenue stream as our primary revenue stream - endemic advertising."

Since 1998, Jordan Edmiston has staged 10 CEO Forums with over 450 CEO's and senior level executives in attendance. The forums include a presentation given by CEOs in which they share insight on their company’s strategy followed by in-depth discussions in a dinner/luncheon setting.

Guest speakers of the most recently held JEGI CEO Forums included:

- Bob Biolchini, President and CEO of Pennwell;
- Dan Brewster, President and CEO of Gruner & Jahr;
- Marc Teren, CEO of Cahners Business Information;
- Dan Ramella, President and COO of Penton Media;
- Cathie Black, President of Hearst Publishing;
- John Wickersham, Chairman and CEO of VNU USA;
- Don Logan, Chairman and CEO of Time, Inc.; and
- Tom Ryder, Chairman and CEO of Reader’s Digest.

Jordan Edmiston hosted its most recent CEO Forum at the Four Seasons restaurant on January 31st. Tom Rogers, Chairman and CEO of PRIMEDIA, Inc., shared his views on the company's acquisition of About.com and its integration with PRIMEDIA's existing properties.

Media Industry M&A Activity (Jan/Feb 2000-2001)

US targets only, including announced and undisclosed deals

	Jan/Feb 2000 No.	Jan/Feb 2000 Amt. ($MM)	Jan/Feb 2001 No.	Jan/Feb 2001 Amt. ($MM)
Business-to-Business Media				
Magazines	10	$88.3	8	$121.8
Online	22	1,236.3	7	183.0
Newsletters	2	3.0	2	3.0
Directories	2	261.0	1	2.0
Conferences and Tradeshows	6	50.0	12	116.0
Learning/Corp. Training	6	99.5	3	123.4
Subtotal	**48**	**1,738.1**	**33**	**549.2**
Consumer Media				
Magazines	15	332.9	5	406.0
Online	15	1,073.5	10	562.6
Learning/Education	2	22.0	7	57.3
Books	4	45.0	4	33.5
Newspapers	8	474.5	8	207.8
Subtotal	**44**	**1,947.9**	**34**	**1,267.2**
Total	**92**	**3,686.0**	**67**	**1,816.4**

Sources: The Jordan, Edmiston Group, Inc., Company Reports

Note: Analysis omits the $106 billion AOL/Time Warner deal, whose size was so large as to obscure meaningful trends.

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valuations and easing debt markets, the market is poised for the pace of takeovers and acquisitions to ramp up again. Savvy acquirers will uncover those companies that can deliver on the promise of strong revenue growth and profits and offer fluent IT integration, economies of scale and global market penetration.

In contrast to the dot-com meltdown, deals were up convincingly for media bellwethers, magazines and tradeshows/conferences. In the first two months of 2001, total business and consumer magazine value was up 25% to $0.53 billion. The 12 conference and tradeshow sector deals of January & February 2001 were valued at $116 million, which represented a 100% increase in activity and more than a 100% jump in total deal value when compared to the first two months of 2000. The B2B magazine and newsletter sectors kept pace this year in deal flow (12 deals in 2000, 10 in 2001) and total transaction value rose 37%.

Learning and Education News Notes From ITTA Colloquium

The Information Technology Training Association (ITTA), the trade association for professionals and companies involved in the IT Training Industry, held its second annual CEO Colloquium meeting in February. Claudia Flowers of Jordan Edmiston was a panelist at the opening session.

The event, held at the Marriott Camelback Resort in Scottsdale, AZ, drew 110 attendees including the CEOs from Thomson Learning, Information Holdings, Inc., DigitalThink, Netg, Wave Technologies, Smartforce and Profsoft.

The opening session, "Wall Street News & Trends," was a lively discussion between the panelists and attendees about the current state of the industry and its future. While the opinions of the panelists varied, they concurred on the following:

- ▸ The evolution of training is a complex model encompassing content, delivery, management tools, training and integration services.
- ▸ While elearning can level the playing field, the cost of entry is significant - to compete, companies require substantial cash, strong brand recognition and critical mass.
- ▸ eLearning will extend and complement instructor-led classroom training.
- ▸ Management tools are important to the success of elearning. There will be a consolidation driven by the needs of content providers for a common management tool set.

The Keynoter, Robert Christie, President and CEO of Thomson Learning, spoke about his company's acquisition strategy, which is aimed at bolstering Thomson Learning's position as a major participant in the learning world. Thomson Learning's strategy: To be the total solution provider to the entire learning space - individual, academic and professional.

The eLearning panel "Are We There Yet?" addressed the various learning solutions available to customers. The panel, consisting of the CEOs from Netg, Smartforce and NIIT and a V.P from ElementK, agreed that the "blended solution" was emerging as the answer to their clients' learning needs. Classroom, web-based training, both synchronous and asynchronous, are all part of this solution.

JEGI Capital Executive Forum

The JEGI Capital Executive Forum was launched to encourage dialog between innovative thought leaders within the venture/technology market-space and forward thinking senior level media executives driving e-business initiatives within their companies.

More than 80 senior executives attended the inaugural JEGI Capital Executive Forum-e-Business Anywhere: Accelerating a Multi-Channel Strategy for the Media Industry, held on January 17th, at the Four Seasons Hotel in New York City. Panelists, including John Hartinger, VP Interactive, A&E TV Network; Edward D. Horowitz, former CEO, e-Citi; David Israel, President, Cahners Construction & Retail Division; Larry Roshfeld, SVP Software Products, Aether Systems. Panelists shared experiences in developing wireless multi-channel strategies for their media and entertainment companies. The panel discussion was co-hosted and moderated by Proxicom SVP Global Strategies Chuck DelGrande. Proxicom CTO, Greg Miller opened the forum with a discussion of media devices expected to enter the market over the next five years and the implications for media companies. For more information or to be added to our mailing list for invitations to future events, contact Esther Reid at esterr@jegi.com.

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acquisitions, there is a continuing flow of committed capital accessible for quality investments. Given the vast existing pool of committed capital, a portion of which was originally raised with an eye toward Internet investments but is now seeking safer investment havens, a sizeable group of private equity investors will be satisfied with a relatively low risk 25% CAGR against the backdrop of falling interest rates and a barren IPO landscape in 2001.

Many media-focused private equity investors understand that integrated information companies, which can adapt and compete in the global marketplace, will offer predictable, attractive returns. Both the business and consumer markets will continue seeking more highly focused, quality information, especially as businesses learn how to compete and prosper in the network-based economy and consumers sort through an ever widening selection of media options.

Some traditional media companies believe private equity investors only offer a short-term, high return-focused investment approach to media ownership and nothing more. Jordan Edmiston however, believes private equity investors' play an essential long-term role in the rapidly consolidating media landscape and, in doing so, benefit the media industry and its stakeholders.

In today's globalizing media industry, Jordan Edmiston believes, private equity investors act as incubators for these "non-core" businesses until diversified media companies are ready to expand into new markets or the acquired businesses have grown into a stand-alone media companies. In this incubation process, private equity investors help sellers to release capital for their own use, contribute additional capital for organic and acquisition growth, and bring highly qualified management expertise to their portfolio of companies. This dynamic applies both to public companies seeking to spin off non-core businesses such as Dow Jones's sale of Dow Jones Financial Publishing Corporation to Wicks Business Information and to private companies whose owners are looking to retire, as was the case with the sale of Commerce Publishing to Pfingsten Publishing.

Jordan Edmiston anticipates that we will look back on 1H 2001 as the beginning of the next wave of media industry mergers and acquisitions, a period of rapid consolidation led by the major diversified media companies such as AOL Time Warner, Bertelsmann, Disney, dmg world media, and Advance Publications acting as the prominent acquirers. Whether it's a consumer media company targeting better ways to monetize the core users that they serve or a business-to-business media company intent on increasing geographic scope and the number of media with which they serve their core vertical markets, these strategic acquirers expect advertisers and information subscribers to continue to increase their spending.

As fully integrated media companies pursue global growth strategies, smaller information businesses, even market leaders, that do not share a similar strategic approach have found it more challenging to find buyers. This is especially true if their core markets do not match those targeted by prospective media company acquirers. Smaller integrated media companies serving a specific core audience, continue to command greater attention and a significant premium from the diversified media companies leading this next wave of industry consolidation.