

INVESTMENT BANKERS TO THE MEDIA, INFORMATION, EXPOSITION AND SOFTWARE INDUSTRIES

2001 Media Industry M&A Overview

Highlights

▶ Buyers spent \$18.6 billion to acquire 407 media and information industry properties in 2001, a 12% decrease from the 460 transactions completed in 2000.

▶ The \$18.6 billion total value of the 2001 Media Industry M&A activity was dramatically less than the total value of either the 2000 transactions (\$48.9 billion), or 1999 transactions (\$45.1 billion).

▶ If the Internet Online Media and Newspaper sectors, which were sharply lower in 2001, are eliminated, adjusted 2001 Media M&A value totals \$15.5 billion, a 20% drop from the adjusted total 2000 value of \$19.4 billion.

▶ The year split into two very different halves: The 253 Media Industry M&A transactions in the first half of 2001 significantly exceeded the 203 in the last half

of 2000. Then, the deal volume slumped sharply in the second half of 2001 to only 154 as the U.S. economy slid into recession.

▶ Purchase price multiples of cash flow declined in the second half of 2001, leading many potential sellers to hold on to properties they had previously targeted for sale. Nevertheless, strategic imperatives, cash flow needs and/or pressure from bank covenants forced some sellers to proceed with selected divestitures.

▶ European companies dominated the 2001 mega-Media M&A transactions: six of the Top 10 were sales of European companies. In 2000, only 1 of the Top 10 was European.

▶ The Top 10 Media M&A transactions accounted for 65% of the total \$18.6 billion transacted in 2001, a ratio consistent with previous years.

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JEGI Outlook on 2002 Recovery

2002 Growth is Underestimated

Over the past 50 years U.S. Real GDP growth has averaged 6.3% in the 12 months immediately following a recession. The lowest growth rate over the six recoveries was 2.3% in 1991 following the Gulf War. Nevertheless, the consensus forecast for 2002 is for growth of 2% or less. JEGI believes mindset is more to blame than economics for the predictions that this will be the slowest recovery in 50 years.

This conservative bias appears to be driven by trends of the recent past, not by the forces shaping the economy in 2002. The U.S. marketing and media industries have confronted a 21% swing in the growth rates of total advertising expenditures over the past two years. (Ad tracker CMR reported 13.3% ad expenditure growth in 2000 over 1999, followed this year by a 7.8% decline in the first three quarters.) Consumer magazine ad pages were down 10.9% through November (PIB), business-to-business ad pages down 19.4% through September (CMR) and trade show net square feet down 0.4% and exhibiting companies down 2.0% (*Tradeshaw Week*).

New York's Unique Role

New York City's pivotal role in the events of 2001 has colored the local perception of the market even further. A victim of an unprecedented terrorist act, the city is the seat of both the hard-hit financial sector and the major financiers of the staggered technology and telecommunications sectors. As a result, the crises in these sectors are "local" to the major media companies concentrated in New York, and they have received heavy, continual coverage. The resulting pessimism has affected both the region's consumers and business leaders. In other parts of the country life has also been permanently changed by the events of September 11, but points of view, and buying and business patterns, have been less severely affected than in New York.

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Media and Information Industry M&A Activity 2000 v. 2001

Industry Sector	Full Year 2000		Full Year 2001	
	No. of Deals	Amount (\$MM)	No. of Deals	Amount (\$MM)
Consumer Magazines	43	2,338.6	38	3,961.9
Business-to-Business Magazines	42	2,071.9	45	1,505.4
Conferences & Trade Shows	30	692.9	49	682.1
Database Information Services	31	3,508.8	31	1,049.0
Internet Online Media	142	16,819.6	77	2,353.8
Directory & Reference Publishing	21	1,049.3	26	5,142.8
Newspaper Publishing	37	12,698.0	74	713.6
Newsletter Publishing	31	360.2	20	108.3
Consumer Books	18	1,138.4	14	225.4
Educational & Professional Publishing	65	8,266.2	33	2,810.5
Total	460	48,943.9	407	18,552.8

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

*2000 excludes America Online's purchase of Time Warner for \$106 billion.

**2000 excludes ReedElsevier's sale of Harcourt Education Publishing to Thomson after acquiring Harcourt

► Consumer Magazines and Directories were the only categories to record higher total M&A transaction value in 2001 than in 2000. Both significantly exceeded the previous year's total value.

► 2001 Conferences & Trade Shows total M&A value was similar to 2000, while the total value of Business-to-Business Magazines M&A fell 27%.

► Internet Online Media M&A activity fell sharply in 2001. The number of Internet deals was halved to 77, and the total M&A value fell 86% to \$2.4 billion from \$16.8 billion in 2000.

Impact of the Recession

The perennially active Media M&A market finally experienced a down-year in 2001 after surging throughout 1998, 1999 and 2000. Advertising, the key revenue driver for magazines, trade shows, newspapers and internet online media, fell 8% in the U.S. in 2001 for all media combined, after an extremely strong 13.5% increase in 2000. Advertising historically falls early in a recession and the 2001 revenue declines fell quickly to the bottom line. "This advertising slump has been particularly hard on the industry, but many market-savvy executives know from previous ad cycles that this is a good time to position their companies for the economic rebound. Historically, advertising spending has always been one of the earliest segments of the economy to recovery," said Jordan, Edmiston Chief Operating Officer Bill Hitzig.

There were 407 mergers and acquisitions among print, in-person and online media industry companies in 2001, with a total aggregate value of \$18.6 billion. Activity reached its peak in the second quarter when 132 mergers were announced, then fell to 101 in the third quarter before ending the year by dropping to a record-low 53 in the fourth quarter, well under the previous low of 89 transactions in the first quarter of 1998.

"2001 saw the revenge of the strategic buyers," said Wilma Jordan, CEO of The Jordan, Edmiston Group and JEGI Capital. "Strategics focused on core business and only made acquisitions that enhanced those core businesses. The earlier boom economy in 1999 and 2000 triggered much opportunistic buying."

Top 10 Deals of 2001

The mega deals of 2001 were very Continental - 6 of the Top 10 acquisition targets were European. As a potential harbinger of a continuing trend, European LBO firms have now amassed 50 billion Euros to spend on regional assets, a strong indication that European media consolidation will continue into 2002. Seven of the Top 10 deals were concentrated in two sectors: consumer magazines, with four

transactions, and directories with three. Hicks, Muse and Apax's \$3.0 billion purchase of Yell, the British Yellow Pages Business, tops the 2001 Media M&A rankings. The two other leading telephone directory deals were TransWestern's 6th ranked \$900 million sale of its U.S. listings to Thomas H. Lee Partners, followed by Telenor Media's Norwegian telephone guides, which went to the Texas Pacific Group for \$666 million in a deal that was ranked 7th.

AOL Time Warner's \$1.7 billion acquisition of the British IPC consumer magazine group of over 100 magazines ranked 3rd in 2001. The other three major consumer magazine deals were VNU's sale of more than 250 European consumer magazines to Sanoma WSOY for \$1.0 billion (ranked 5th), Primedia's winning bid of \$515 million for Emap's 60 U.S. consumer titles (ranked 8th) and the New York Times Company's \$435 million divestiture of its golfing magazines to Advance Publications (ranked 10th). Completing the Top 10 are: Vivendi's acquisition of Houghton Mifflin for \$2.2 billion (2nd), Cinven's \$1.2 billion purchase of Vivendi's B2B and Health divisions (4th) and Yahoo's late December announcement of reaching a definitive agreement to purchase HotJobs.com for \$436 million (9th).

Financial Buyers Remained Active

Financial buyers were also heavily represented in the Top 10 Deals of 2001. All three large telephone directory sales went to financial buyers, while the multi-billion euro British Cinven fund was the buyer in the 4th largest media transaction of the year, the acquisition of Vivendi Universal's business-to-business and health divisions. "More private equity money is targeting traditional media than at any time in the past five years," said Scott Peters, Jordan, Edmiston Group Managing Director. "LBO funds seek to take advantage of the downturn in advertising spending and in some cases debt-burdened balance sheets by opportunistically buying and building platform companies that stand to benefit from an economic recovery."

Pent-Up Demand Entering 2002

A major factor of the decline in M&A activity in the second half of 2001 was the number of potential sellers who chose to wait for earnings, and therefore valuations to rise. Unmet demand for media company acquisitions increased throughout the year. In addition to the buyout funds with a history of making media industry investments - including Veronis, Suhler, ABRY Partners, Boston Ventures and the Wicks Group - many well-funded private equity LBO firms new to the sector made extensive inquiries in the second half of 2001 regarding target company availability. As operating performance at media companies improves with the expected recovery in 2002, those financial buyers will try to time their acquisitions to buy before economic recovery drives multiples back up toward the levels seen in 1999. The tension between buyers attempting to acquire at the bottom of the cycle

and sellers holding out for "fair" valuations will likely add to the pent-up demand as 2002 progresses. Already, some buyout firms have begun bidding against each other for leading properties, which could help drive up multiples in 2002.

B2B Magazine M&A Down 27%

The only blockbuster B2B transaction in 2001 was the Vivendi Universal sale for \$1.2 billion, which accounted for 76% of the sector's total transaction value. The sale of the Thomson Financial properties would have ranked 2nd among B2B transactions if the deal had closed in 2001, as originally expected. No other single transaction topped \$100 million. Cygnus / ABRY Partners and Penton were the most active acquirers. The Cahners divestiture of 22 titles handled by Jordan, Edmiston was, in aggregate, the 2nd largest B2B sale. Boston Venture's purchase of the Cahners Travel Group, renamed Northstar, the transfer of the Economist's Journal of Commerce group to Commonwealth Business Media, also handled by JEGI, and Informa's purchase of Eaton's bioresearch properties were the other leading B2B transactions.

Trade Show M&A Stalls after Hot 1st Half

Trade Show M&A activity dried up to a trickle in the second half of 2001. After recording \$505 million from 32 deals in the first half, the Trade Show sector ended the year with a total value of only \$682 million from 49 transactions. The largest transactions were Frontenac and Lake Capital's acquisition of Georgia-based Nth Degree for \$150 million and Key3Media's purchase of Pulver.com and Business Communications Review for \$100 million. The most active acquirers, for the 2nd consecutive year, were Veronis, Suhler and dmg which, along with Imark, each made 4 acquisitions. "Trade shows struggled in the aftermath of the September 11th terrorist attacks and into the fourth quarter, but as the year ends, initial signs of recovery in key metrics have been observed" said Richard Mead, Jordan, Edmiston Managing Director.

Consumer Magazine M&A Up 69%

The Consumer Magazine sector had four of the year's 10 largest transactions and surged 69% past last year's total deal value. Primedia's purchase of the Emap's U.S. special interest magazine assets made trade press news throughout the year. The \$515 million outlay triggered a commitment to shareholders from Tom Rogers that Primedia would divest \$250 million in assets to reduce the company's total debt. Those divestitures were still in process at year-end. AOL Time Warner was the most active consumer magazine buyer with five purchases, picking up the IPC Group in Great Britain and four other properties including *Business 2.0* and the paid circulation list of the *Industry Standard*. Advance Publications and Primedia each made two acquisitions in 2001.

JEGI Capital Includes Intraspect in Portfolio

JEGI Capital LLC, has made an early stage investment of \$1.5 million of a \$33 million Series F Preferred Stock round in Brisbane, California based Intraspect. GE Equity led the round, with Reed Elsevier Ventures and Diamondhead Ventures also contributing. Roger Krakoff, Managing Director at JEGI Capital, coordinated the investment for the New York-based equity fund and has an observer seat on the board of Intraspect.

Intraspect, the leader in c-businesssm, provides enterprise software applications that allow corporations to empower their employees to not only work more efficiently and share valuable corporate knowledge, but also to extend collaboration beyond the enterprise enabling companies to integrate more closely with their customers, partners, and suppliers.

"Intraspect's software products allow a company's employees to work in the same manner they always have, while making it easier to share information within the enterprise as well as between the company and its business partners. Intraspect customers realize both increased sales productivity and improved internal operating efficiencies," said Tom Crowley, Managing Partner, JEGI Capital.

"Intraspect has a seasoned management team that understands how knowledge management technologies can enable companies to enhance and enrich their relationships with current and new customers" added Wilma Jordan, CEO of JEGI Capital.

For more information visit www.intraspect.com

JEGI Outlook on Recovery in 2002

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Support for Higher Growth

This daily concern with the present difficulties masks a set of positive economic indicators in place at the end of 2001 that are inconsistent with predictions of the slowest recovery in 50 years. The record low 1991 2.3% recovery growth was impacted by both tax hikes and insufficient economic stimuli. Growth in 2002 should be stronger due to:

▶ **Record monetary stimulus** - Interest rates are the lowest in 40 years. In 1991, a key short-term rate declined only 9%, versus a 42% drop in 2001.

▶ **Record fiscal stimuli** - Tax rebates were issued in 2001 and a \$100 billion stimulus package is being considered in Congress.



The Jordan, Edmiston Group, Inc. (JEGI) hosted its Annual CEO Dinner at The Russian Tea Room, the evening before the opening of the AMC in October. (From Left) Stephen Murphy, President and COO, Rodale, Inc.; Cathy Black, President, Hearst Magazine Group; Wilma Jordan, Founder and CEO, JEGI and JEGI Capital; Nina Link, President, Magazine Publishers of America; and Bill Hitzig, Chief Operating Officer and Executive Managing Director, JEGI.

▶ **Low oil prices** - 2001 growth in oil demand was the slowest in 5 years. Crude oil prices which reached \$32/barrel in January 2001 ended the year at \$19, down 57%.

▶ **Inventory rebuilding** - Inventory levels are lower than in 1991, and the economy still gets a lift even if inventories continue to drop in 2002, but at a lower rate than in 2001.

▶ **Personal wealth** - Equity values have risen from September lows and consumer buying power is supported by money market and savings deposits that are 79% higher than in 1991 in nominal dollars or 46% higher in constant dollars.

▶ **Low expectations** - Growth in 2002 is likely to surprise on the upside in part because expectations are so low.

These stimuli should help strengthen the economy more quickly than the 1991 pace. The resulting lift in consumer confidence and spending in 2002 will trigger marketing budget increases and stimulate advertising and trade show expenditures. In the pessimistic forecasts, the economic recovery doesn't begin until the 3rd or 4th quarter of 2002. On the bullish side, Ian Shepherdson at High Frequency Economics calls for a 1% GDP growth in the 4th quarter of 2001.

Profiting from a Downturn

Michael Porter says in a December *Wall Street Journal* article that choosing a company's strategic positioning during a recovery is more critical than the strategy it employs during prosperity, when growth masks many poor choices and encourages wishful thinking. For example, he describes how Intel, operating in one of the hardest hit sectors and in spite of sharp drops in sales and profits, is now making large investments in its core microprocessor business.

When growth returns to historical rates, Intel will be positioned to take market share. In 2002, media companies who take action early to increase customer loyalty and market share while their competitors are inwardly focused, are also likely to achieve unmatched competitive leverage from their efforts and improved market position versus their competitors.

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Directories Lead all Sectors in 2001

In addition to the three 2001 blockbuster Directory acquisitions by buyout firms, strategic players Thomson and Reed Elsevier were active with three transactions each. RE's Greenwood press purchased Oryx Press and its New Providence business directory group was dismantled in two transactions. Marquis *Who's Who* was sold to Commonwealth Business Media and R.R. Bowker, publisher of *Books in Print*, to Cambridge Scientific Abstracts. Thomson's Gale Group and Medical Economics completed two acquisitions and one divestiture.

Database Information Down in 2001

More than three times as much value was transacted in Database & Information Services in just the first half of 2000 than changed hands the entire year in 2001. Wolters Kluwer made four acquisitions in 2001, but only Reuter's purchase of Bridge systems passed \$250 million in this sector. In 2000, six deals did, including the sale of Primark to Thomson for \$1.1 billion, Dialog to Thomson for \$275 million, DTN to VS&A and CMDG to Cahners. "Information Services businesses are especially attractive in the current advertising climate," said Mark Suchecki, Jordan, Edmiston Managing Director. "Their subscription-only revenue model means they are independent of cyclical advertising patterns, and the provision of truly mission critical information creates customer loyalty."

The Hearst Corporation
has sold certain assets of
FIRSTDATABANK
to
Wolters Kluwer
January 2002

REED EXHIBITION COMPANIES
has sold
EastPack, WestPack and SouthPack regional tradeshows
to
CANON COMMUNICATIONS
April 2001

Cahners
has sold
Supply House Times, Security and Security Distribution & Marketing Magazines
to
BNP
BUSINESS NEWS PUBLISHING
January 2001

SUSSEX PUBLISHERS, INC.
has sold
MOTHER EARTH NEWS
to
Ogden Publications Inc.
January 2001

Cahners
has sold
Contractor Magazine
to
Penton
April 2001

FT FINANCIAL TIMES
has sold
FT Energy Group
to
platts
a division of
The McGraw-Hill Companies
September 2001

UNIVERSAL ENGELBREIT COX, LLC
has sold
MARY ENGELBREIT'S HOME COMPANION
to
Belvoir PUBLICATIONS, INC.
December 2001

Celebrating Our 15th Year

Allured
has acquired
Global Cosmetic Industry Magazine
from
ADVANSTAR COMMUNICATIONS
December 2001

Cahners
has sold
Automotive Body Repair News, Motor Age and Automotive Marketing
to
ADVANSTAR COMMUNICATIONS
March 2001



INVESTMENT BANKERS TO THE MEDIA, INFORMATION, EXPOSITION AND SOFTWARE INDUSTRIES

Cahners
has sold
Pollution Engineering, Industrial Paint & Powder, Assembly and Quality Magazines
to
BNP
BUSINESS NEWS PUBLISHING
January 2001

INDIVIDUAL INVESTOR GROUP, INC.
has sold the subscriber list of
Individual Investor
to
KIPLINGER'S WASHINGTON EDITORS, INC.
July 2001

Cahners
has sold
Automotive Industries, RPM, Owner-Operator and Commercial Carrier Journal
to
Randall Publishing
A FAMILY OF COMPANIES
March 2001

The Economist Group
has sold
Pyramid Research
to
Executive Insight LLC
October 2001

When it comes to selling your business, there's no such thing as a second chance.

dmg world media
has acquired a 25% interest in
WESTERN EXHIBITORS, INC.
from
UNIVERSAL SHOWS, INC.
February 2001

So when choosing an M&A advisor, consider each firm's reputation, experience, integrity, professionalism, performance and results.

Cahners
has sold
American Metal Market, Metal Center News and New Steel Magazines
to
METAL BULLETIN
for **\$14,000,000**
May 2001

The Jordan, Edmiston Group, Inc. offers the best way to maximize value in what may be the most important transaction of your life.

Wilma Jordan, Founder and CEO

Cahners
has sold
Dairy Foods, Prepared Foods, Food Engineering, Food Master, Alimentos Procesados and El Libro Maestro Magazines
to
BNP
BUSINESS NEWS PUBLISHING
January 2001

The Economist Group
has sold its
Trade and Transportation Information Division
to
Commonwealth BUSINESS MEDIA
November 2001

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Reader's Digest
has sold the subscriber list of
WALKING SMART HEALTH AND FITNESS
to
Time Inc Health
September 2001

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