

STATE OF INTERACTIVE M&A

October 2009



M&A for the Media & Information Industries

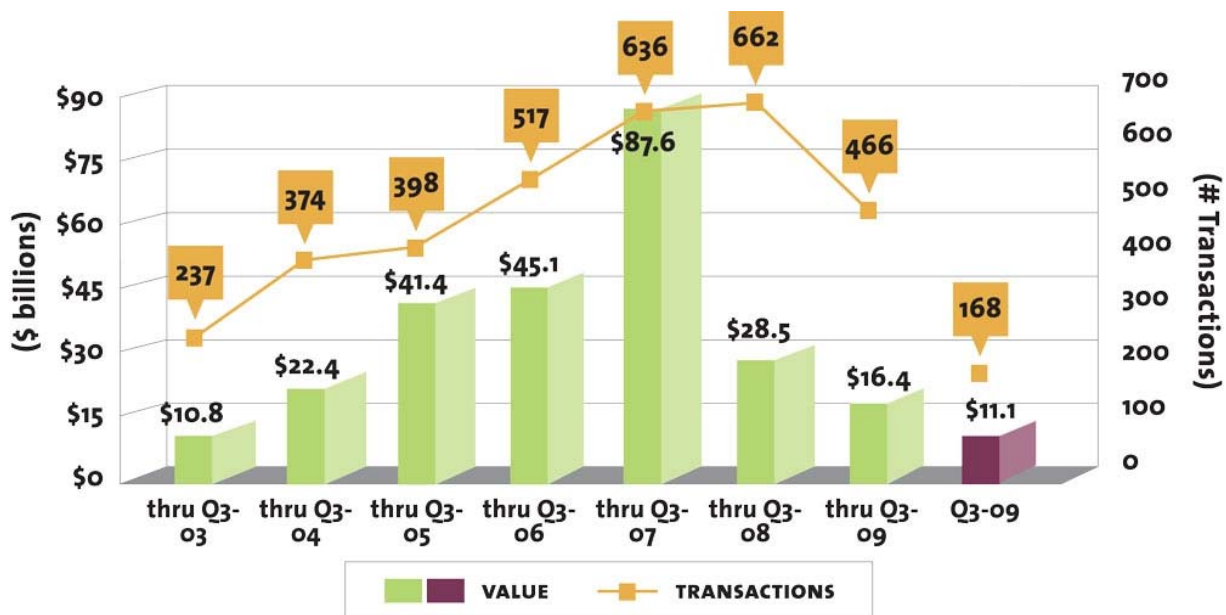
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Overall Media & Information M&A

The first three quarters of 2009 saw 466 M&A transactions worth \$16.4 billion announced across the media, information, marketing services and technology sectors, as tracked by The Jordan, Edmiston Group, Inc. (JEGI) (www.jegi.com), the leading independent investment bank specializing in acquisitions and divestitures across these core markets.

While overall transaction volume fell 30% and deal value declined 42% through Q3, versus the same period of 2008, two markets actually saw growth in M&A activity in 2009 over 2008 – the Mobile and Education sectors.

Education deals increased by 15% in number and 41% in value to \$3.2 billion, as this sector benefits from innovation, government spending and some shelter from the economic cycle. Meanwhile, the Mobile sector saw 25 transactions worth just under \$400 million, up 56% in number and 76% in value from 2008, as this long-expected market begins to accelerate.



SOURCE: JEGI TRANSACTION DATABASE

Re-Heating Sectors Drive M&A

The most active M&A markets covered by JEGI overall have been Education Information, Technology & Training; Marketing & Interactive Services; Mobile Media & Technology; and Online Media & Technology. Together, these four sectors accounted for 337 deals or 72% of the transactions announced and 87% of deal value (\$14.2 billion) in the first three quarters.

Given strong growth forecasts for online advertising in the years ahead, interactive and mobile categories continue to see active M&A. According to Rob Norman, CEO, GroupM Interaction, global Internet advertising will climb 11% to \$64.7 billion in 2010, accounting for 15% of all global measured ad spending,



up from a 13% share in 2009. Meanwhile, global mobile advertising is expected to climb 19% to \$3.3 billion in 2010.

A recent Yankee Group report estimates that nearly seven billion US Smartphone application (app) downloads will generate \$4.2 billion in revenue by 2013, up from \$343 million in 2009. With the number of US Smartphone users set to quadruple to 160 million by 2013, Yankee Group describes the anticipated market growth as a gold rush.

**Strategic Company
Acquirers Lead
Strong Uptick in Q3
M&A Activity**

While the first two quarters of the year were moribund, the M&A market showed signs of life in Q3 with 168 announced transactions valued at \$11.1 billion. By comparison, the entire first half of the year saw only \$5.3 billion in deal value, with a high concentration of small distressed sales. This resurgence was driven by over a dozen \$100+ million and \$1+ billion transactions, which drove average deal size from \$18 million in the first half of the year to \$66 million in Q3.

**Media, Information, Marketing Services & Related Technology
Significant M&A Transactions in Q3 2009**

Date	Buyer (Parent)	Seller (Parent)	Brief Description	Price (\$ millions)
Jul-09	Amazon	Zappos.com	Online apparel and footwear merchant	\$928
Jul-09	Asset International	Strategic Insight	Research and business intelligence to the mutual fund industry	n.a.
Jul-09	Charterhouse Capital Partners	Wood MacKenzie	Research and consulting to energy, metals and mining industries	\$910
Jul-09	IBM	SPSS	Predictive analytic software and solutions	\$1,200
Aug-09	Apax Partners	Bankrate	Internet-based consumer banking and personal finance network	\$571
Aug-09	Barnes & Noble	Barnes & Noble College Booksellers	Campus bookstores for academic institutions	\$596
Aug-09	Google	On2 Technologies	Video compression software and related services	\$109
Aug-09	Helios Investment Partners	INM Outdoor (Independent News & Media)	Outdoor advertising, radio, and live entertainment services	\$142
Aug-09	Publicis Groupe	Razorfish (Microsoft)	Interactive ad agency	\$530
Aug-09	Roll Call (Economist Group)	Congressional Quarterly (Times Publishing Co.)	News, information and analysis on Congress	n.a.
Aug-09	Syniverse Holdings	VeriSign's Messaging Business	Mobile messaging platform	\$175
Sep-09	Adobe	Omniture	Online business optimization products	\$1,800
Sep-09	Silver Lake Investment Group	Skype (eBay)	Video and voice calls over the Internet	\$2,700
Sep-09	Intuit	Mint.com	Online personal finance service	\$170

SOURCE: JEGI TRANSACTION DATABASE

NOTE: COMPANIES REPRESENTED BY JEGI ARE HIGHLIGHTED IN BOLD RED.



M&A for the Media & Information Industries

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Strategic buyers accounted for roughly 80% of total deal value through Q3, as they took advantage of better-priced opportunities and invested in innovative business models, new growth and integrated solutions. Private equity firms have played only a minor role in acquisitions so far this year, as many have been focused on improving profitability and restructuring debt in overleveraged portfolios.

**Mergers Completed
During Downturns
Outperform**

Interestingly, according to the Boston Consulting Group and Thomson Financial, mergers completed during downturns far outperform mergers completed during upturns, in terms of shareholder return. As a result, now is an ideal time for corporations to make acquisitions, and strategic acquirers in the Media and Information Industry have been focused on investing in:

- New business models and integrated solutions across multiple media channels, especially digital;
- Emerging markets, which have shown much higher growth rates than traditional markets in recent years;
- High-growth market sectors, such as Education, Mobile, Healthcare, and Interactive Agency Services; and
- Acquisitions of complementary content, information, technology and services that broaden reach within their existing market footholds and strengthen their barriers to entry.

Interactive M&A

Interactive M&A includes the following core sectors, as defined by JEGI: B2B Online Media & Technology; Consumer Online Media & Technology; Mobile Media & Technology; and Interactive Marketing Services. Combined, these four sectors accounted for 219 transactions in the first three quarters of 2009 and \$10.2 billion in value. While the number of interactive M&A transactions in 2009 is down 31% versus the same period of 2008, deal value is nearly on par with 2008 levels (\$11.8 billion).

Interactive M&A continues to be active in Q4, as a slew of transactions have been completed in the early part of October. Experian sold Vente, an online permission-based marketing and lead generation firm, to Q Interactive, a portfolio company of Intrepid Investments (JEGI transaction); KIT Digital acquired FeedRoom, an online video management, reporting and analytics firm; Thomson Reuters acquired Breakingviews, an online source of agenda-setting financial insight; and Burst Media acquired online ad network Giant Realm.

Other active areas for Interactive M&A include social networks, gaming, mobile advertising and video, online content, and measurement.

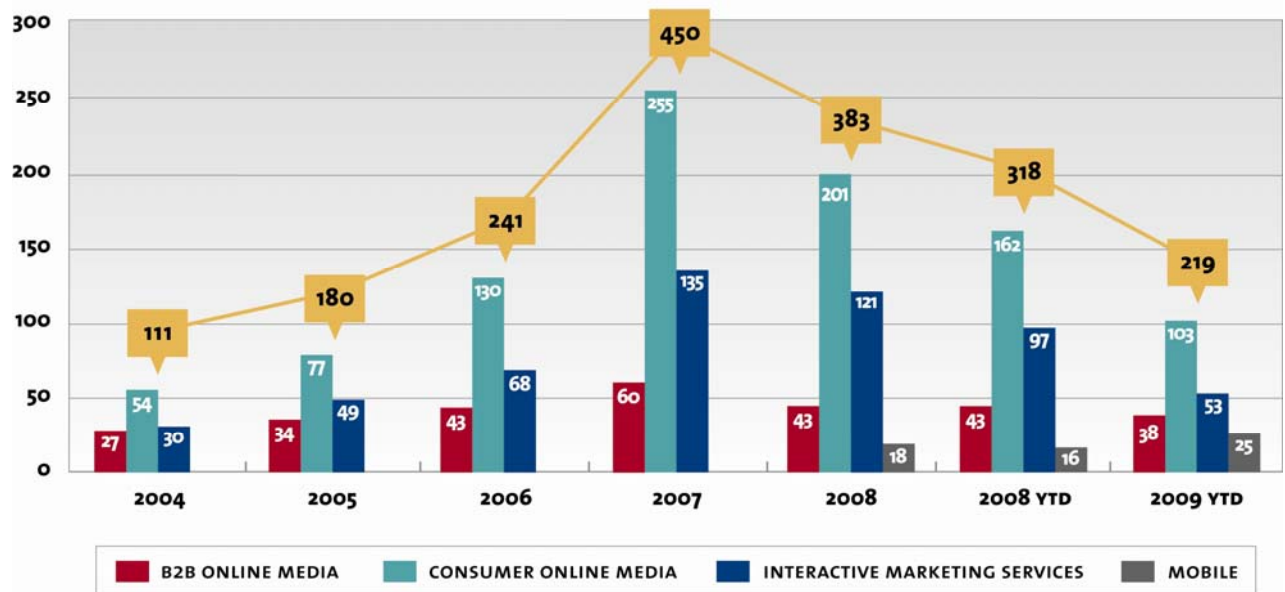
The **b2b online media and technology** sector saw 37 transactions announced, valued at \$397 million, in the first three quarters of 2009. However, the number of announced deals and transaction value lagged 2008 levels by 14% and 68%, respectively. In 2008, there were several \$100+ million transactions, including the sale of ShopLocal by Tribune and McClatchy to Gannett; the sale of Gracenote to Sony; and the sale of Maven Networks to Yahoo! Notable b2b online media transactions in 2009 included the sale of Survey Monkey to Spectrum Equity Investors and Bain Capital; Getty Image's acquisition of DayLife; Google's acquisition of ReCaptcha; Thomson Reuters' acquisition of Breakingviews.com; and WebMediaBrands' sale of Internet.com to Quinstreet.

Of the interactive media sectors covered by JEGI, the **consumer online media and technology** sector saw the largest number of transactions announced and the highest transaction value through the first three quarters of 2009. Still, the 104 deals valued at \$5.2 billion trailed 2008 levels by 36% and 17%, respectively. However, many of the largest and fastest growing consumer online media companies have been active acquirers in 2009, including Facebook, which acquired FriendFeed for \$50 million; IAC, which acquired People Media for \$80 million; Amazon, which acquired Zappos for \$928 million; MySpace, which acquired iLike.com for \$19.5 million; and Yahoo, which acquired Maktoob for \$85 million.

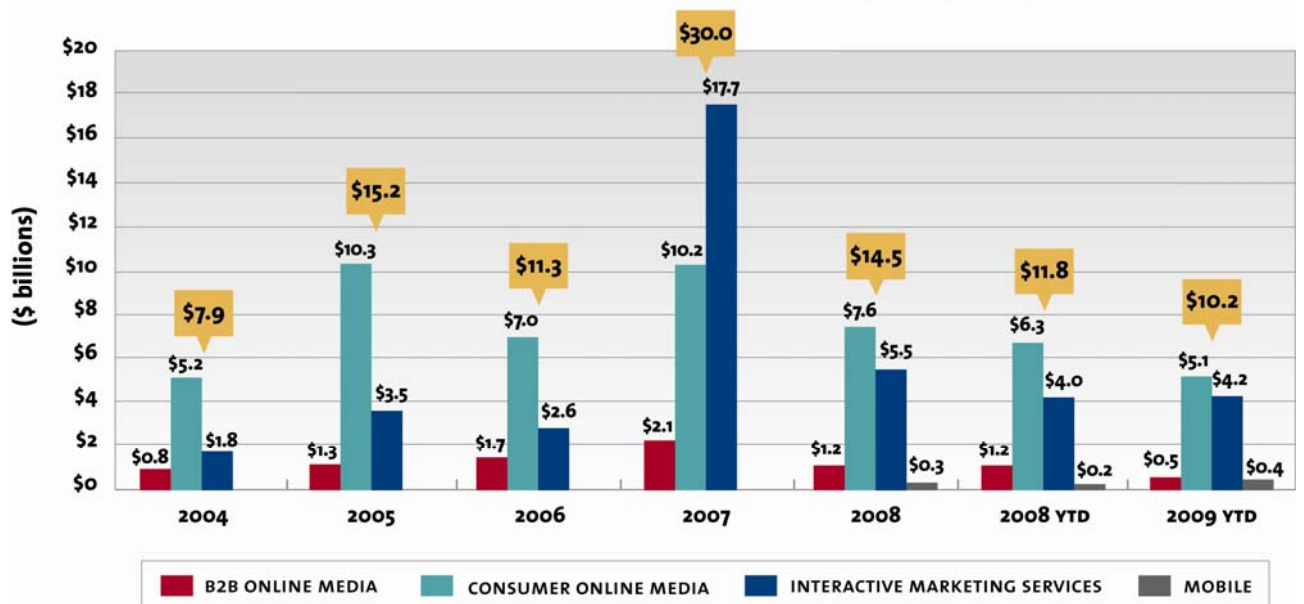
The **mobile media and technology** sector showed the largest year-over-year gains, with 25 announced transactions valued at \$396 million through the first three quarters of 2009, up 56% and 76%, respectively, over 2008. Strategic acquirers seeking to enhance their product offerings in this burgeoning market led the way. The largest deal in 2009 so far has been Syniverse Holdings' \$175 million acquisition of VeriSign's mobile messaging platform. Other key areas of investment in the mobile sector included social networking, advertising, location-based applications and software, content and information, and marketing services.

The **interactive marketing services** sector saw a 45% decline in the number of deals announced in the first three quarters of 2009 versus the same period of 2008 (53 deals vs. 97). However, deal value was practically even over the two periods, as several significant transactions were announced in this sector in Q3 of 2009, including IBM's \$1.2 billion acquisition of SPSS, Adobe's \$1.8 billion acquisition of Omniture, Publicis Groupe's acquisition of Razorfish from Microsoft for \$530 million, and Google's acquisition of On2 Technologies for \$109 million.

Interactive M&A – # Transactions, 2004-2009YTD



Interactive M&A – Transaction Value, 2004-2009YTD



Source for both charts: JEGI Transaction Database

Note for both charts: YTD is through Q3; Mobile only started being tracked separately in 2008

First Half 2009 Online Advertising

Internet advertising revenue in the U.S. totaled \$5.4 billion in Q2 of 2009, representing a decline of 0.7% from Q1 of 2009 and a decrease of 5.4% versus Q2 of 2008, according to the Interactive Advertising Bureau (IAB). Year-to-date Internet advertising revenue through June 2009 totaled \$10.9 billion, down 5.3% from the \$11.5 billion reported for the same six-month period in 2008.

Key Trends

- Search revenue accounted for 47% of Q2 2009 Internet revenue, up from 44% reported for the same period in 2008. Search revenue totaled \$2.6 billion in Q2 of 2009, up 1 percent from Q2 of 2008;
- Display Internet advertising accounted for \$1.9 billion or 35% of total online revenue during Q2 of 2009, which remained relatively flat as compared to the \$1.9 billion (33% of total) reported in Q2 of 2008;
 - Display advertising includes: Display Banner Ads (22% of Q2 2009 revenues, or \$1.2 billion); Rich Media (7%, or \$354 million); Digital Video (4%, or \$240 million); and Sponsorship (2%, or \$101 million);
- Classifieds revenue totaled \$548 million or 10% of Q2 2009 Internet revenue, down 32% from the \$804 million (14% of total) reported in Q2 of 2008;
- Online Lead Generation revenue accounted for 7% of the Q2 2009 revenue or \$361 million, down 10% from the \$402 million (7%) reported in Q2 of 2008.

“We are in one of the most difficult economic slumps in decades. Interactive is one of the advertising sectors that has been least affected. In recent years, the digital revolution has driven a transformation of how consumers experience advertising and media. As the economy improves, we’re confident that brands will devote an even greater share of their budgets to reaching consumers as they make interactive media a larger part of their lives.”

Randall Rothenberg, President & CEO, Interactive Advertising Bureau (IAB)

Strong Multiples for Interactive Media

Acquirers continue to pay premium prices for interactive media, software and technology properties, as the interactive advertising market has not been as deeply affected as traditional ad markets in the current economic downturn. As noted in the revenue multiples chart below, valuations range from 2.0x revenue for B2B Online Media & Technology and Interactive Marketing Services transactions to as high as 6.0x revenue for software transactions. For example, Adobe acquired Omniture for 5.4x trailing 12 months (TTM) revenue.

By comparison, traditional media assets (b2b magazines and events; consumer magazines; and newspapers) are trading for under 2.0x revenue, and distressed assets may trade at less than 0.5x revenues. TV Guide, for example, sold for \$1 plus the assumption of its deferred sub liabilities. And, many newspaper



companies have sold through negotiated lender transactions for much less than their liabilities.

Interactive M&A Revenue Multiples	
B2B Online Media & Technology	2.0X-4.0X
Interactive Marketing Services	2.0X-4.0X
Consumer Online Media & Technology	3.0X-5.0X
Mobile Media & Technology	3.0X-5.0X
Software & Technology	4.0X-6.0X

Source: JEGI Transaction Database

**Data and Video:
Two Major Trends
Driving Digital
M&A from 2009-11**

Looking back to the launch of Yahoo, Amazon and Netscape in the mid 1990s, one could say that the commercial Web is now a “teenager”, with an attendant host of new complexities and opportunities. JEGI is tracking two online areas in particular – targeting and video – that promise to deliver continued innovation, as well as robust M&A activity, as major players seek out new growth models, retool their core businesses and mitigate risks.

In the years since the dot-com bubble burst, the main drivers of digital M&A have been:

- 1) major groups building audience scale and reach via acquisitions of large destination sites and ad networks; and
- 2) the emergence of integrated content and ad delivery systems via acquisitions, such as Google/DoubleClick and Microsoft/aQuantive (Atlas) and the purchase of specialist players, such as Gannett’s acquisition of PointRoll.

While we expect these types of deals to continue, the center of gravity will shift to include better targeting of advertising via leveraging data, and better ad impact via deploying video.

Ad Targeting and Data

More precise ad targeting to specific audiences has always been part of the promise of the Web, but has been notoriously difficult to scale. Now, a new class of companies is emerging to create a separate and efficient market for user targeting data, independent from – but coupled with – the market for advertising inventory. Advertisers stand to benefit from more efficient media buys, and publishers will gain better value for their inventory. However, many

of the current players in the online advertising delivery value chain, such as ad networks and ad servers, will see their strong margins come under pressure.

Advertising Delivery The delivery of an online ad from the marketer or agency to the publisher's site requires a menagerie of participants spanning not just ad servers, such as DoubleClick and Atlas, but also content delivery networks (e.g., Akamai, Limelight), specialist rich media and video ad delivery platforms (e.g., PointRoll, EyeWonder), display technologies (e.g. Adobe's Flash), ad networks (e.g., Ad.com, Undertone Networks), and now emerging video ad networks, such as Tremor Media and YuMe in the U.S. and smartclip in Europe. These ad delivery players – both technology providers and ad networks – have built strong businesses, with EBITDA margins of 20+%, based on the value they add in the current impression-based market for online media.

In the “traditional” online world, advertising was delivered on the basis of media reach – delivering viewer impressions on specific sites that marketers expected their audiences to be visiting. While a number of groups like Collective Media and Specific Media gathered and applied user data to improve ad targeting, these were generally captive capabilities and covered only a portion of an overall advertising campaign.

Standalone Data Players Now, we are seeing the emergence of standalone data players that help marketers reach specific audiences rather than particular media impressions. These include horizontal data aggregators like BlueKai and Exelate, which collect data from publishers in order to aggregate and resell segments of consumers, and groups like Quantcast and Compete, which gather data through a web analytics platform and offer advertisers access to specific audiences.

These also include vertical players that focus on particular industries, like Jumpstart and Beep! in automotive, and Acerno and MyWebGrocer in retail, which leverage data on consumer activity to identify “in market” buyers for a product. Included in this group are companies mining social network data, like Media6Degrees and Lotame, to identify an audience with a higher propensity to respond to a given marketer's message. Meanwhile, the major agencies are building “demand side networks” that aggregate data across clients, allowing a more complete view of the audience and better targeting.

The Coming Land War Of course, these data players all expect to earn a margin, so there will likely be growing pressure on incumbent ad delivery firms' margins. In fact, we expect a veritable “land war”, as data providers compete for a greater portion of the ad delivery value chain. Major ad delivery players will respond by buying data and analytics groups to mitigate pressure on their businesses and tap new growth, while better coordinating the delivery and optimization of rich consumer experiences, whether advertising, content or complete programming. Examples include Adobe's \$1.8 billion purchase of

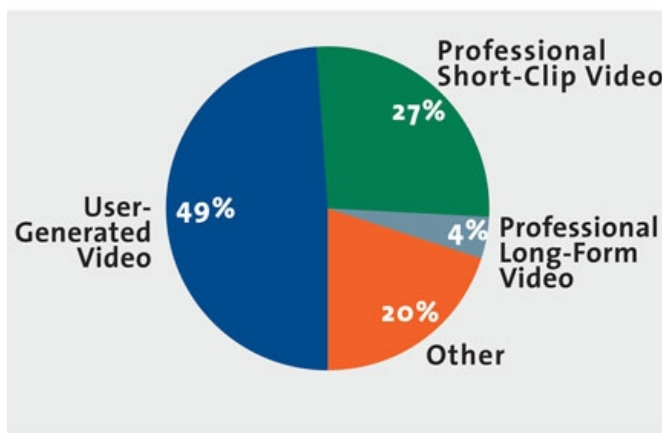
Omnicore, a major player in web analytics, and Akamai's acquisition of Acerno, a leader in behavioral targeting using online shopping behavior, for \$100 million. JEGI expects to see significant activity in this segment, as other major players in online ad delivery acquire online targeting groups.

Online Video

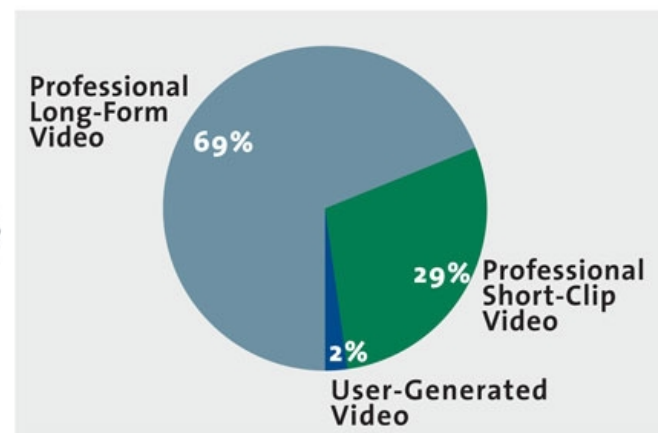
Large scale mainstream use of online video was initially held back by bandwidth constraints and lack of standards. For example, TV stations did not lack for video content, but video file requests never amounted to more than 1% of viewer impressions, and the TV station sites remained a primarily text and photo experience. The subsequent improvement of broadband Internet access and video player standards enabled the explosion of YouTube and demonstrated user interest in consuming video online. In May 2009, 134 million Americans consumed 10 billion online video streams, with the average viewer consuming more than three hours of online video content, according to Nielsen.

As YouTube, Brightcove and others drove massive initial adoption of video, advertisers remained hesitant and ad agency media buyers avoided laborious and inefficient video buys. Now, we are finally seeing ad dollars shift meaningfully into digital video. This combination of less friction in deploying and monetizing video will reduce the hurdles for consumer video consumption across platforms, particularly as professional grade video proliferates on the Web. The Hulu joint venture of NBC, News Corp and later Disney has demonstrated that a well polished user experience will bring online viewership to advertising-grade content. By 2013, user-generated content will account for 49% of online video streams, but just 2% of online video ad revenue. Professional long-form online video, such as TV shows and movies, will garner 69% of online video ad revenue from only 4% of streams, according to technology research firm The Diffusion Group.

US Online Video Streams by Type (2013)



US Online Streaming Video Ad Revenue (2013)



SOURCE: THE DIFFUSION GROUP

Hurdles Disappearing The hurdles to deploying video broadly are dropping quickly. Enterprise-grade video providers like Brightcove are enabling a broad range of publishers to efficiently manage and present video, while open source companies like Kaltura drive the cost to install basic video player functionality to zero. Tedious and costly services like transcoding are moving into the cloud and will be readily available on demand at rapidly dropping costs.

Ad Revenue Shifting At the same time, meaningful ad revenue is shifting to digital video. Interestingly, in Europe, some groups are reporting earlier success than their U.S. counterparts in tapping TV ad budgets, a shift likely to spread to the U.S., as ad buyers see higher margins from online video. More ad revenue drives more content and usage, in a virtuous cycle. The result is innovation and proliferation in both consumer and business-to-business applications.

Consumer Video Having seen the devastation wrought on the music industry, video asset owners are being careful in protecting their content. So the trick is to make it easier for consumers to buy and pay for video content and allow content and ads to flow freely, with real portability, across the various devices that consumers want to use, including TV, computers, laptops, smart phones, e-readers, etc.

Companies like BlackArrow, Extend Media and Freewheel are emerging to address the need for lower friction across digital video for the consumer and advertiser. Cisco, the dominant maker of routers that handle video traffic, expects that video will exceed 90% of global consumer Internet traffic by 2013.

B2B Video Proliferation On the B2B side, we can expect massive proliferation of video across commercial applications. Corporate web sites, customer interfaces and CRM systems, e-learning and education platforms, and finance, healthcare, and government applications will increasingly feature embedded video as a more efficient means of packaging and delivering information.

Early B2B leaders include webcasting groups like On24 and Accela Communications. Much broader applications will come from groups such as Comcast, which owns both video provider thePlatform and business contacts manager Plaxo, or Cisco, which has proposed to acquire web teleconferencing group Tandberg for \$3 billion.

We expect to see rapid penetration of video into more business applications, and an upswing of M&A activity, as major providers like Microsoft and Adobe continue to build their role in delivering, optimizing and monetizing rich graphical experiences.

Outlook Looking ahead, JEGI expects the following dynamics to influence an M&A market recovery in 2010:

- M&A activity will build on marketplace confidence, reflecting consensus that the economy has stabilized;
- M&A valuations will continue to strengthen, driven by strategic companies showing revenue and profitability growth;
- Credit markets have begun to rebound; credit is available but expensive; senior debt on M&A transactions: 2x-3x EBITDA;
- Companies that must reinvent/retool models will acquire; PE firms will be preoccupied with over-leveraged portfolios; and
- Federal capital gains tax expected to increase from 15% to 25%+ in January 2011, propelling some owners (especially entrepreneurs) to sell in 2010.

JEGI has a robust pipeline and expects to close several noteworthy transactions in the second half of 2009. Overall, the M&A market has begun to turn, and JEGI anticipates healthier deal activity for the balance the year, especially in the fast-growing Interactive Media sectors, with Data, Online Video, and Mobile leading the way.

About JEGI The Jordan, Edmiston Group, Inc. (JEGI) of New York, NY is the leading provider of independent investment banking services for media, information, marketing services and related technologies. Since 1987, JEGI has completed nearly 500 high-profile M&A transactions for global and emerging companies; entrepreneurial owners; and private equity and venture capital funds. For more information, contact Managing Directors Tolman Geffs (tolmang@jegi.com), Scott Peters (scottp@jegi.com) or David Clark (davidc@jegi.com) all at 212-754-0710 or visit www.jegi.com.