



Current Trends In, and The Valuation of, Publishing Businesses

ASA Advanced Business Valuation Conference
October 25, 2002

Scott A. Nammacher, ASA, CFA

Managing Director

Empire Valuation Consultants, Inc.

350 Fifth Ave., Suite 5513

NY, NY 10118 (212) 714-0122

Email: scottn@empireval.com

EMPIRE
VALUATION CONSULTANTS

Agenda

- ◆ Industry Overview
- ◆ Segment Trends
- ◆ Transaction Values – Magazines
- ◆ Factors Driving Sale Values
- ◆ Factors Impacting Minority Interests

Industry Overview

◆ Publishing Industry Is Broadly Defined

- » Newspapers: Daily/Weekly
- » Directories/Yellow Pages
- » Books
- » Consumer & Bus. To Bus. Magazines
- » e-Publishing
- » Other

◆ Each Segment Has Numerous Sub-categories

Industry Overview – Many Players

- ◆ Large Media Companies Cross Several Segments:
 - » AOL Time Warner
 - » Bertelsmann A.G.
 - » Reed Elsevier
 - » Pearson
 - » McGraw-Hill
 - » Washington Post Co.
 - » Viacom
 - » Pearson

- ◆ Market Split Between Very Large and Small Cos.

Industry Overview – Ad Based Publishing

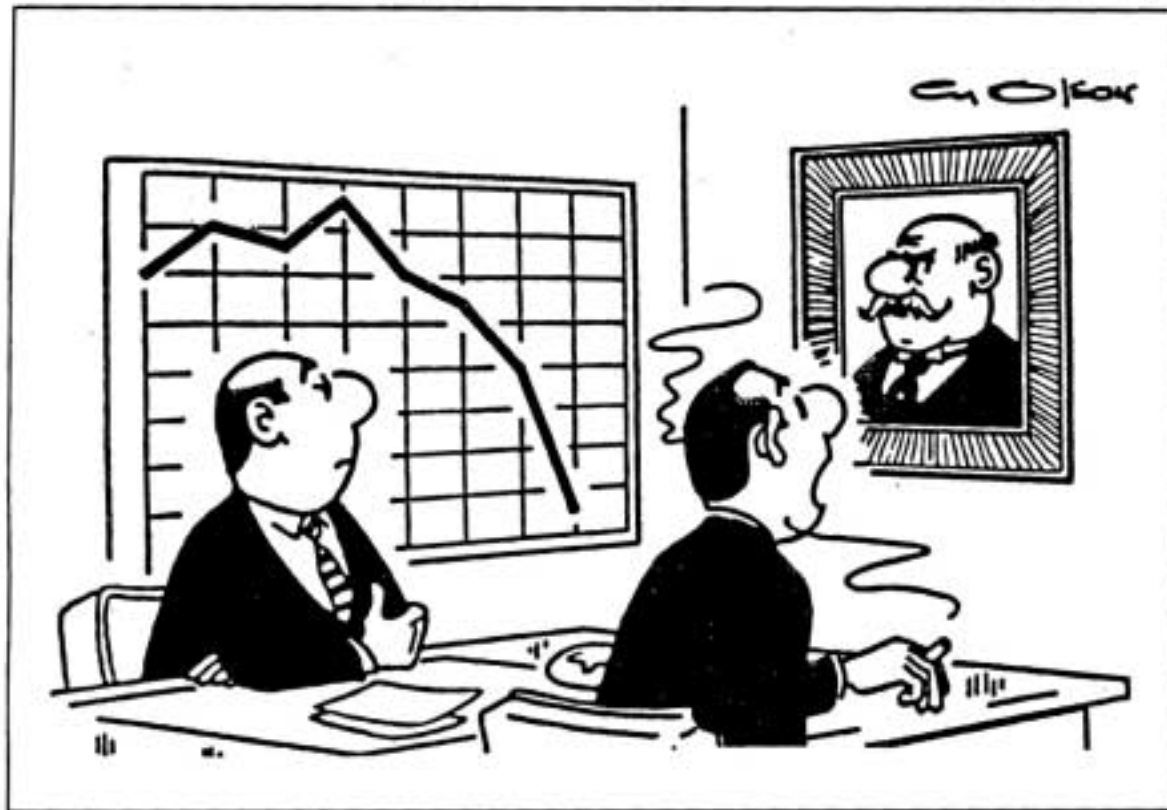
◆ Publishing Industry: Relative Size in 2001 Ad Revenues

	<u>2000</u>	<u>2001</u>	<u>% of</u> <u>2001</u>	<u>%Chg.</u>
» Newspapers	\$48.7B	\$44.3B	19.2%	-9.0%
» Broadcast TV	44.8	38.9	16.8	-13.2
» Weeklies/Shoppers/Etc.	32.1	30.0	13.0	-6.5
» Cable TV	15.5	15.5	6.7	0.5
» Yellow Pages (Dir.)	13.2	13.6	5.9	3.0
» Magazines (incl. Bus. Papers)	17.3	15.6	6.7	-9.8
» Internet Ads	6.5	5.7	2.5	-12.3
» All Other (incl. direct mail)	<u>69.0</u>	<u>67.7</u>	<u>29.2</u>	<u>-1.9</u>
» Total	\$247.1	\$231.3	100.0%	-6.4%

Source: Newspaper Assoc. of Am.

EMPIRE
VALUATION CONSULTANTS

Recent Trends Are Not Pretty



Where do we go from here, Dad?

Industry Overview – Total Revenues

◆ Publishing Segments – Est. of All Revenues*

	<u>1996</u>	<u>2000</u>	<u>2001</u>
» Newspapers	\$53.0B	\$65.9B	\$61.9B
» Yellow Pages (Dir.)	10.7	13.4	14.4
» Book Publishers	31.0	37.9	38.5
» Magazines	<u>28.8</u>	<u>37.6</u>	<u>33.8</u>
» Total of Segments	\$123.5	\$154.8	\$148.6

* Veronis Suhler Stevenson “Communications Ind. Forecast”

Agenda

- ◆ Industry Overview
- ◆ Segment Trends
- ◆ Transaction Values – Magazines
- ◆ Factors Driving Sale Values
- ◆ Factors Impacting Minority Interests

Segment Overview – Newspapers

◆ Overall Trends Continue to Erode

		<u>1980</u>	<u>2000</u>	<u>2001</u>	<u>%Chg.</u>
» Circulation (morn./even)	MM	62.2	55.8	55.7	-0.2%
» Circulation Dollars	\$Bil.	N/A	\$10.9	\$10.8	-1.6%
» Advertising \$B (incl. classified.)		N/A	\$48.67	\$44.30	-9.0%

◆ First Half of 2002 Ad Revs Down 4%

- » Local advertising levels improving

◆ Total Spending (Adv. & Circl.) Down 6.1% in 2001*

- » First Time in Ten Years

* Veronis Suhler Stevenson “Communications Ind. Forecast”

Segment Overview – Newspapers

◆ Number of Newspapers By Edition*

Year	Morning	Evening	Total M&E	Sunday
1980	387	1,388	1,745	735
1990	559	1,084	1,611	863
1995	656	891	1,533	888
1998	721	781	1,489	897
1999	736	760	1,483	905
2000	766	727	1,480	917

*Newspaper Assoc. of America

Segment Overview – Newspapers

- ◆ Newspapers Continue to Remain Key Medium for Local, Regional and National Advertisers
 - » Timely
 - » Targeted
 - » Cost Efficient

- ◆ Continue to Generate Cash Flow and Attract Investors/Buyers

- ◆ Projected Compounded Avg. Growth Rate (CAGR) of Total Weekly and Daily Papers Revenue to YE 2006: 5.1%*

* Veronis Suhler Stevenson “Communications Ind. Forecast”

Industry Overview – Newspapers

◆ Major Players Include:

- » Gannett
- » Tribune Company
- » New York Times
- » Knight Ridder
- » Washington Post
- » Hollinger
- » EW Scripps

Smaller Cos. Include:

- » News Communications
- » Daily Journal
- » Journal Register
- » Pulitzer
- » Lee Enterprises
- » Media General

◆ Public Cos. Represent Over 35% of Estimated Industry Revenues*

* Veronis Suhler Stevenson “Communications Ind. Forecast”

Segment Overview – Yellow Page Dirs.

- ◆ Only Ad Based Publishing Media Segment to Grow in 2001
 - » Most ads placed prior to 9/11 (end of 2000)
 - » Local nature makes it a core retail medium
 - » Local ads make up over 80% of \$14.4B in revenues

- ◆ Independent Publishers Continue to Make Inroads Against Local Carrier Market Shares
 - » Grew from \$665MM in 1996 to \$1.54Bil. in 2001*
 - » Expect double digit ad growth over next four years

- ◆ CAGR Estimated at 3.3% to 2006*

* Veronis Suhler Stevenson “Communications Ind. Forecast”

Industry Overview – Yellow Pages

- ◆ Major Players Include:
 - » Bell South
 - » R. H. Donnelley (Sprint)
 - » SBC Communications
 - » TransWestern
 - » Verizon
 - » Yellow Book/Yell Group

Segment Overview - Books

◆ Consumer Book Segments

- » “Trade Books”
 - Adult fiction/non-fiction hardcover/softcover
 - Juvenile fiction/non-fiction hardcover/softcover
- » Religious
- » Mass-market paperbacks
- » Book clubs

◆ Professional/Educational Books & Materials

- » Professional
- » “Elhi” Educational (K-12th Grade)
- » College Educational

Segment Overview – Consumer Books

◆ Consumer Books

	<u>2000</u>	<u>2001</u>	<u>%Chg.</u>
» Total spending (\$B)*	\$18.0	\$17.8	-0.6%
» 2002 shaping up as an up year through June**			
– Adult trade & paperback: Up 32% and 20%, respectively			
– Juvenile trade & paperback: Up 21% and 10%, respectively			
– Mass market paperback: Up 17%			
» CAGR Projected at 2.8% to 2006*			

* Veronis Suhler Stevenson “Communications Ind. Forecast”

**Association of American Publishers

Segment Overview – Prof./Ed. Books

◆ Professional/Educational*	<u>2000</u>	<u>2001</u>	<u>%Chg.</u>
» Professional (\$Bil)	\$12.4	\$12.8	3.7%
» Elhi Educational	3.7	4.0	7.8
» College Educational	3.8	4.0	7.2

◆ 2002 Shaping Up Well in Two Categories**

- » Professional/Scholarly: up 5%
- » College: up 18%
- » Elhi: down 7%

* Veronis Suhler Stevenson “Communications Ind. Forecast”

**Association of American Publishers

Segment Overview – Prof./Ed. Books

- ◆ “No Child Left Behind Act” Passed 2002
 - » \$26.5 billion over 12 years for reading and math efforts for K-12
 - » Small but material portion likely to go to books

- ◆ CAGR For Revenues Projected at 5.0% to 2006*

* Veronis Suhler Stevenson “Communications Ind. Forecast”

Industry Overview – Books

◆ Major Players Include:

- » Pearson PLC
- » McGraw Hill
- » Vivendi Universal
- » Reed Elsevier
- » Readers Digest
- » Scholastic
- » John Wiley

◆ Smaller Cos. Include:

- » Media Source
- » Intervisual Books
- » Millbrook Press
- » Mediabay
- » Thomas Nelson
- » Bureau of National Affairs

◆ Public Cos. Represent Over 45% of Estimated Industry Revenues*

* Veronis Suhler Stevenson “Communications Ind. Forecast”

Segment Overview – Magazines

◆ Consumer Magazine Title Growth Slowed

Year	Natl. Dir. Of Mags.	SRDS
1995	15,996	2,428
1996	17,195	2,470
1997	18,047	2,513
1998	18,606	2,522
1999	17,970	2,520
2000	17,815	2,567
2001	17,694	2,600

Segment Overview – Magazines

- ◆ Ad Revenues Hit Hard By Cutbacks*
 - » Advertising dropped but at differing rates
 - Consumer magazine ad pages down 11% from 2000 to 2001
 - Regional Magazines down 14%
 - National/regional business magazines down 25% to 34%
 - Computer/technology down 31%
 - B2B magazine ad pages down 19.7% in 2001
 - Business/Finance/Insurance and Tech Mags off over 25%
 - » 2001 subscription revenue dropped 2.1% and 5.4% for consumer and B2B magazines, respectively**

* Mag. Publishers of America (MPA)

** Veronis Suhler Stevenson “Communications Ind. Forecast”

Segment Overview – Magazines

- ◆ 2002 Represents Retrenchment Year
 - » Continued Weakness from 2001*
 - Particularly for B2B magazine ad revenue
 - Off 15% or more for Business/Finance and Tech mags

- ◆ Single Copy Sales Continue to Drop
 - » 1990 - 20% of Circulation
 - » 2000 - 15% of Circulation

- ◆ CAGR For Revenue Projections (Ad & Circ.\$) to 2006:**
 - » 3.2% in Consumer Magazines
 - » 2.0% in Business Magazines

* Business Information Network/American Business Media

** Veronis Suhler Stevenson “Communications Ind. Forecast”

Industry Overview – Consumer Magazines

◆ Major Players Include:

- » AOL Time Warner
- » Readers Digest
- » Primedia
- » Meredith

◆ Smaller Cos. Include:

- » Casino Journal Publishing
- » General Media
- » Playboy Enterprises
- » Martha Stewart Living
- » American Media Operations

◆ Public Cos. Represent Over 60% of Estimated Industry Revenues*

* Veronis Suhler Stevenson “Communications Ind. Forecast”

Industry Overview – B2B Magazines

◆ Major Players Include:

- » Reed Elsevier
- » United Business Media
- » McGraw Hill
- » Wolters Kluwer (CCH)
- » Primedia

◆ Smaller Cos. Include:

- » Advanstar
- » Penton Media
- » Euromoney Institutional Investor
- » The Economist Group

◆ Public Cos. Represent Over 30% of Estimated Industry Revenues*

* Veronis Suhler Stevenson “Communications Ind. Forecast”

Projected Growth By Segment: Summary

◆ History and Projections For Total Rev. Growth By Segment*

Year	Newspapers	Consumer Books	Prof./Ed. & Trng. Books	Yellow Pages	Consumer Magazines	Bus. To Bus. Mags.
1999	5.1%	6.9%	4.5%	6.4%	5.0%	8.3%
2000	4.5	-0.4	9.1	6.6	5.2	6.8
2001	-6.1	-0.6	2.6	5.3	-4.5	-17.7
2002	3.0	2.1	2.9	1.7	-0.8	-9.7
2003	5.8	3.3	5.4	3.0	2.7	4.3
2004	6.0	3.0	5.9	3.5	4.3	6.3
2005	6.3	3.0	5.8	4.1	5.3	5.0
2006	4.4	2.5	5.0	4.2	4.6	5.2
2001 – 2006	5.1	2.8	5.0	3.3	3.2	2.0

* Veronis Suhler Stevenson “Communications Ind. Forecast”

Agenda

- ◆ Industry Overview
- ◆ Segment Trends
- ◆ **Transaction Values – Magazines**
- ◆ Factors Driving Sale Values
- ◆ Factors Impacting Minority Interests

Publishing Deal Values Higher Than Most

- ◆ Transaction Valuation Multiples ('98-'02):
 - » MVIC to EBITDA Multiples: 8 – 15X
 - » MVIC to Revenue Multiples: 1 – 3X
 - » Price to Earnings Multiples: N/A

- ◆ Mergerstat Premiums Over 60% In Last Few Years For Publishing Companies
 - » Newspapers
 - » Magazines
 - » Books

Transactions - Magazines

- ◆ Transactions Continued But \$ Value Was A Fraction of 1999 and 2000 Deals*

	1998	1999	2000	2001
Total Deals	105	115	102	115
\$ Volume (Billions)	\$6.9	\$14.0	\$25.0	\$4.7
Avg. Deal Size (MM)	\$65.7	\$121.7	\$247.5	\$40.9

- ◆ 2002 Much Weaker YTD

* DeSilva & Phillips

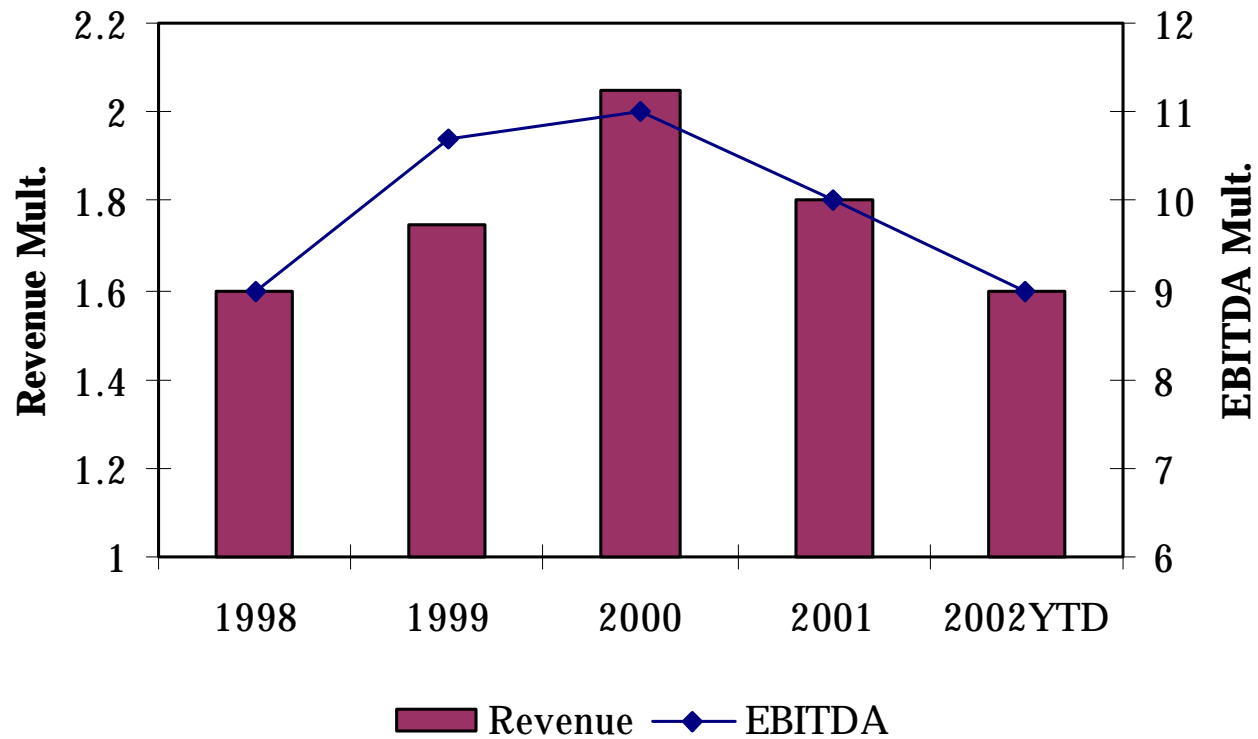
Transaction Values – Magazines*

Year	Business Description	TIC (\$000)	Revs. (\$000)	TIC/Revenue	TIC/EBITDA
2002	Specialty Cons. Magazines	\$1,200,000	\$316,000	3.8X	16.7X
2002	Specialty Cons. Magazines	30,000	20,000	1.5	15.0
2002	Magazine	150	313	0.5	2.4
2001	Bus. Magazines	5,600,000	2,400,000	2.3	11.6
2001	RE Publications	170	233	0.7	2.4
2001	Cons. Magazines	535,000	360,000	1.5	14.6
2000	Bus. Magazines	5,580,000	2,370,000	2.4	11.7
2000	Cons. Magazines	1,570,000	700,000	2.2	N/A
2000	Golf Magazines	2,380	2,770	0.9	N/A
2000	Wedding Mag. Publisher	9,190	10,330	0.9	12.7
1999	Cons. Magazines & Shows	97,000	54,000	1.8	N/A
1999	Regional RE Magazine	790	895	0.9	N/A
1998	Bus. Magazine & Show	31,000	5,400	5.7	12.9
1998	Bus. Magazines	66,800	28,300	2.4	7.6
1997	Sports Magazines	22,500	14,200	1.6	10.7

*Transactions only those with multiples available. Many others occurred but multiples not available.

Historical Transaction Multiples

Magazine Deals

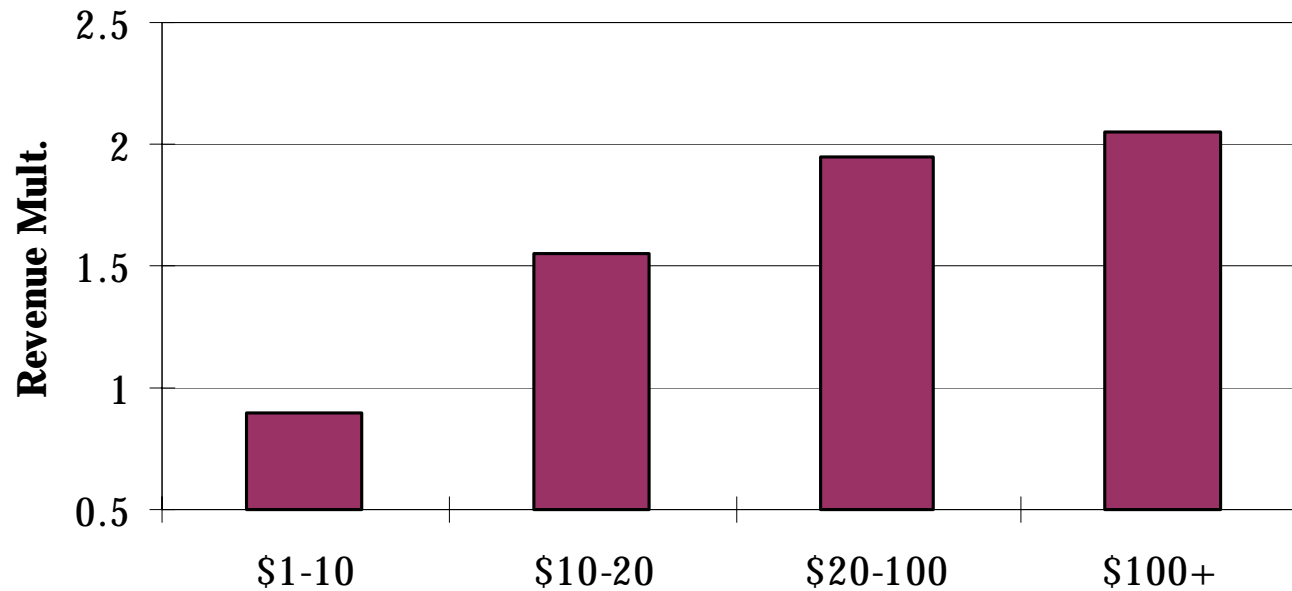


Est. by Jordan Edmiston Group, Inc. (JEGI)

EMPIRE
VALUATION CONSULTANTS

Size Impacts Revenue Multiples

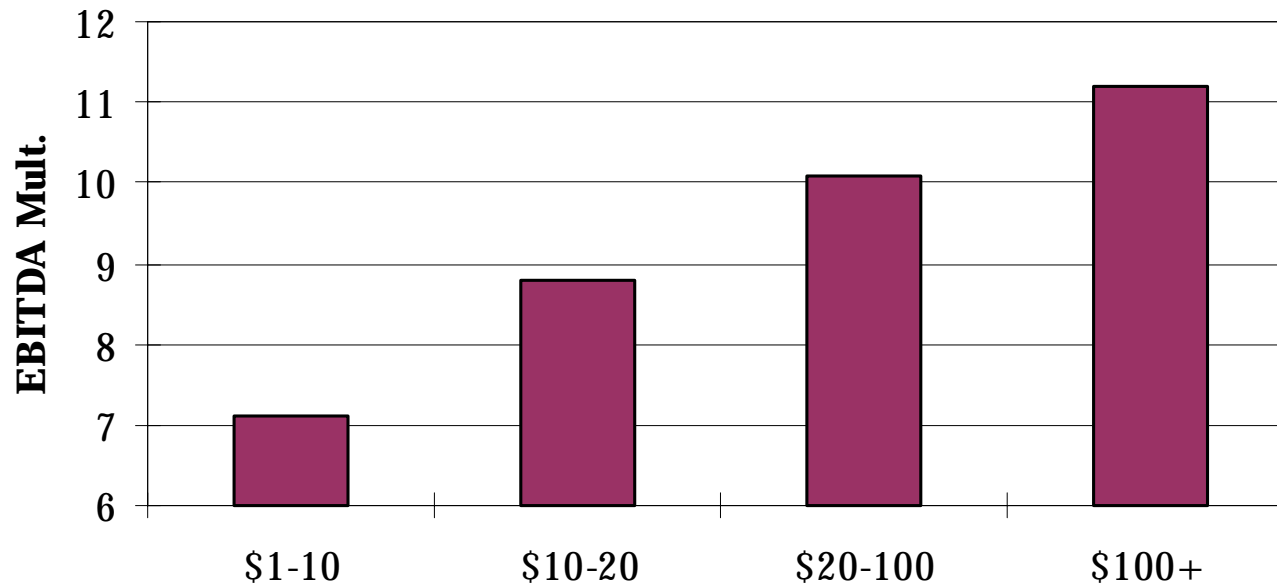
**Magazine Deals
Transaction Prices (\$MM)**



Source: JEGI Data Base 1998-2002 YTD

Size Impacts EBITDA Multiples

**Magazine Deals
Transaction Prices (\$MM)**



Source: JEGI Data Base 1998-2002 YTD

Agenda

- ◆ Industry Overview
- ◆ Segment Trends
- ◆ Transaction Values – Magazines
- ◆ Factors Driving Sale Values
- ◆ Factors Impacting Minority Interests

Value Drivers For Magazines: Operations

- ◆ Sale Values Affected By Business Factors:
 - » Market served – size, growth, etc.
 - » Market share and competition
 - » Brand strength and positioning
 - » Management/Staff
 - » Growth potential with new products, media off-shoots, etc
 - Conferences, newsletters, directories, etc.
 - » Revenue, EBITDA & cash flow size, stability & prospects
 - » Advertiser & Subscriber Base and Trends
 - » Consolidation opportunities (expenses, competition, etc.)

Value Drivers For Magazines: Market

- ◆ Financial Market Factors Affecting Sale Values
 - » Public Market & Economy Weak – Values Depressed
 - » Private equity investment funds are buyers*
 - Primary buyers in 2001 and 2002
 - Over 80 firms actively looking (vs about 50 in 2000)
 - » Lenders lending at much lower EBITDA multiples*
 - Were 4.0 to 6.0 times TTM
 - Now 2.5 to 5.0 times
 - » Lending mostly on strong/larger transactions

* Est. by Jordan Edmiston Group, Inc.

Magazine Industry – Relative Margins

◆ Estimated EBITDA Margins By Business Line Typically Found in a Magazine Company*

» Consumer Magazines	18%
» Business Magazines	22%
» Conference and Tradeshow	30%
» Newsletters	28%
» Directory	27%

◆ Growth Can Be Very Profitable

* Est. by Jordan Edmiston Group, Inc.

Profitable Growth is Key to Value

- ◆ Long-term Growth Opportunity Impacts Value
 - » Growth in revenues
 - » Growth of market itself
 - » Cost savings from consolidation/rolling up titles
- ◆ Lower Return Requirements for Industry Yield Higher Multiples for Growing Businesses

Cap Models: Two-Stage Growth Model

Direct to Equity:

$$V_t = \frac{NCF_{tEq} * (1 + g_n)}{(k_e - g_n)} + \frac{NCF_{tEq} * H * (g_h - g_n)}{(k_e - g_n)}$$

To Invested Capital:

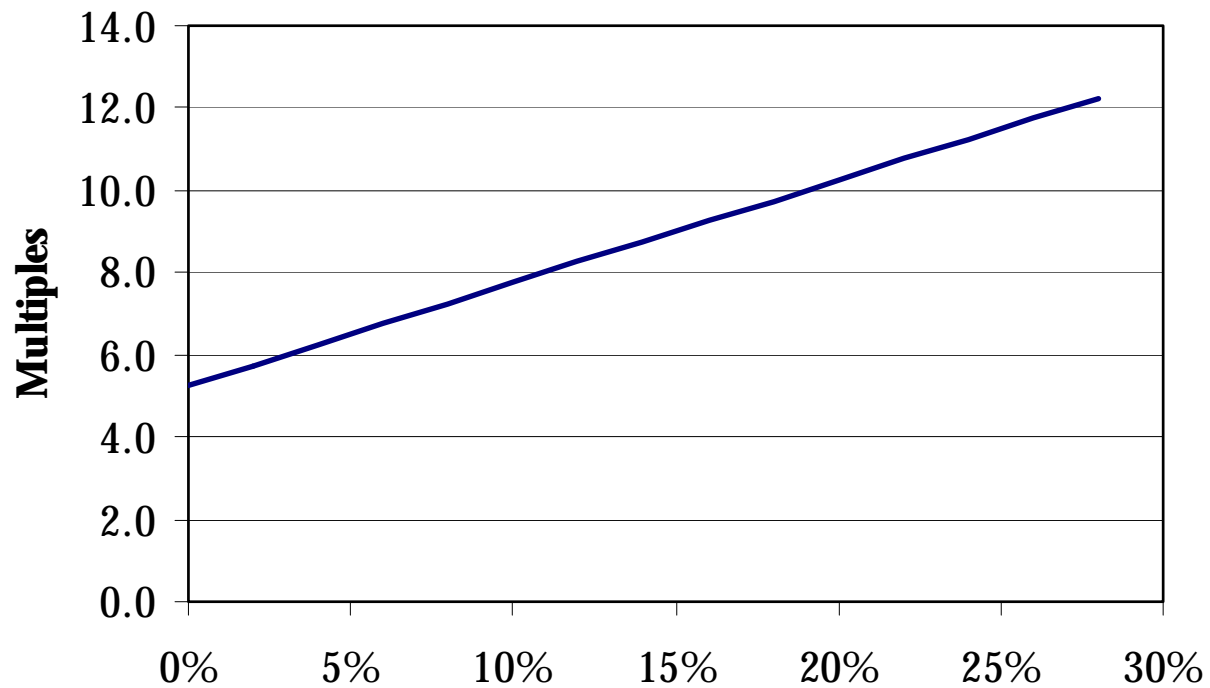
$$V_t = \frac{NCF_{tIC} * (1 + g_n)}{(WACC - g_n)} + \frac{NCF_{tIC} * H * (g_h - g_n)}{(WACC - g_n)}$$

H= half-life of high growth phase (5yrs= 2.5)

g_h = high growth rate

g_n = long-term normal growth rate

Growth Impacts Multiples Directly*



High Growth Period Growth Rates

Assumes 8 Yr. High Growth Period

*Graphic Example Only: Two Tier Model w/4% Lt-growth.

Agenda

- ◆ Industry Overview
- ◆ Segment Trends
- ◆ Transaction Values – Magazines
- ◆ Factors Driving Sale Values
- ◆ Factors Impacting Minority Interests

Factors Affecting Minority Interest Values

- ◆ Factors That Drive Down Minority Interest Values
 - » Growth prospects (Pvt. vs public access to capital)
 - » Inefficiencies and lower income margins
 - » Size of interest
 - » Attractiveness of property to private equity
 - 59-60 type factors
 - » Ability to transfer/sell interest – Holding period impact

- ◆ Note: Ibbotson Industry Adjustments to Equity Rates
 - » Newspapers: -3.2%
 - » Periodicals: -2.1
 - » Book Publishing: -3.8

Lack of Control Discount

- ◆ Sale Premiums are Large in Publishing
 - » Savings in consolidation
 - » Stability in cash flow
 - » Brand extension/integration opportunities
 - » Management leverage
 - » Active Buyer Market

- ◆ Lack of Control Discounts From Sale Prices Should Be Large

Information Sources – Magazines

◆ Consumer Magazines

- » Audit Bureau of Circulations accessabc.com
- » BPA International bpai.com
- » I Want Media iwantmedia.com
- » Magazine Publishers of America magazine.org
- » MediaMark Research Inc. mriplus-online.com
- » Media Central mediacentral.com
- » Newspaper Assoc. of America naa.org
- » Periodical Publishers Association ppa.co.uk
- » Publishing & Media Group pubmedia.com
- » SRDS (Consumer Mags) srds.com
- » Veronis Suhler Stevenson veronissuhler.com

Information Sources – Magazines

◆ Business to Business Magazines

» Most of Consumer Magazine Sources Plus:

- | | |
|-------------------------------|--|
| » American Business Media | americanbusinessmedia.com |
| » Competitive Media Reporting | cmr.com |
| » Folio Magazine | foliomag.com |
| » iTradeFair.com Inc. | itradefair.com |
| » SRDS (Business Pub. Adv.) | srds.com |