

B E R T O L I M I T C H E L L

**A thumbnail review of transaction activity in 2009,
and outlook for 2010**

January 2010

Introduction

2009 was a difficult year for all, the publishing and information sector included. Companies were focused on managing cash flow and survival. Not all survived. Of the 1,300 or so companies covered by Bertoli Mitchell six per cent (84 companies) entered administration or were wound up in the year.

The ramifications of over-leverage and the lack of access to capital bit deep. Notable casualties were Incisive Media and The Reader's Digest. Incisive Media was broken up, the banks assuming complete ownership of the US-based business (re-branded ALM) and the Royal Bank of Scotland swapping its debt for a 49 per cent equity stake in the UK-based business. Companies continuing to struggle include EMAP Ltd, owned by APAX and Guardian Media Group, currently in renegotiations of its banking covenants.

Bertoli Mitchell covers 19 relevant AIM-listed companies. Of these four de-listed during the year (Rambler Media, Capital Ideas, Charterhouse Communications and ExpoMedia Group), with three going into administration.

The most pain, however, was undoubtedly felt by smaller companies, with turnover of less than £6.5 million. Of the 1,000 or so companies falling into this category over seven per cent went into receivership or were dissolved during the year. The Research & Education sector was the most affected with one in ten of the businesses in this sector being wound up. In the Consumer sector the percentage was eight per cent and in the Professional and B2B sector around seven per cent. In broad terms it was the 'lower-quality' income businesses that were most affected: customer/contract publishers and advertising-dependent publishers.

2009 Mergers & Acquisitions Activity

The level of M&A transaction activity in 2009 was markedly lower than 2008 with 39 per cent fewer transactions, by volume.

However, companies with cash continued investing, albeit at a lower level: Thomson Reuters made eight acquisitions, Morning Star made seven, and IAC and United Business Media both made six acquisitions.

Larger companies also accelerated repositioning their portfolios, notably Daily Mail & General Trust. The company fast-forwarded its move away from lower-margin B2C exhibitions to perceived higher-margin B2B exhibitions. DMG World Media, its exhibitions arm, sold seven consumer-focused businesses during the year.

Table 1 overleaf summarises the deal activity among the most active players.

Table 1. Most Active Players (by volume)

Buyer	Acquisitions		Disposals	
	2009	2008	2009	2008
Bertelsmann AG	2	6	1	1
Bisnode Information Group AB	2	4	4	3
Bonnier Group AB	4	4	1	1
Cengage Learning	2	4	2	3
Clarion Events Holdings	1	5	-	1
Daily Mail & General Trust	-	9	9	3
Gannet Co, Inc.	-	6	-	-
The Hearst Corporation	3	7	1	-
Hubert Burda Media	5	7	-	-
IAC	6	6	4	4
IHS	4	8	-	-
Kaplan, Inc.	2	6	-	-
Lagardere SCA	1	6	2	2
Morning Star, Inc	7	5	-	-
News Corporation (Dow Jones)	2	9	5	2
Pearson	7	6	-	1
Reed Elsevier	3	15	3	5
Thomson Reuters	8	4	-	3
Time Warner	5	8	-	3
United Business Media	6	15	1	-
Verlagsgruppe Georg von Holtzbrinck	-	7	-	1
Wolters Kluwer	1	6	-	-
Total	71	153	33	33

New Entrants

Armed with proceeds from his sale of Datamonitor to Informa, Mike Danson's new media vehicle, Progressive Digital Media Group, listed on the AIM Market in June 2009 via a reverse takeover of TMN Group Plc.

Backed and run by David Smith, former CEO at Taylor & Francis Plc, and Tony Foyle, former CFO at Informa Plc, Critical Information Group Plc (CIG) floated on the AIM Market, also in June 2009. The company's stated strategy is to acquire and consolidate B2B media properties. During the second half of 2009 it made unsuccessful attempts to buy Centaur Media Group and the UK-based part of Incisive Media.

Private Equity

The decline in the number of big leveraged deals since the peak of 2007 hardly needs commentary.

The largest deals of 2009 included the sale by Candover Investments of Wood Mackenzie Ltd to Charterhouse Capital for £553 million. Candover, together with its co-investment partner CinVen, also sold Springer Science + Business Media to Swedish private equity group EQT V and Singapore-based GIC Special Investments. Candover and CinVen received only £90 million for their equity with the purchasers assuming £1.98 billion worth of Springer debt.

The other significant private-equity-backed deal during the year was the acquisition by Apollo Group (with the backing of Carlyle Group) of BPP Plc for £303.5 million.

The table below provides a summary of PE-funded transactions in the year.

Table 2. PE Activity (by type)

Target	Buyer	Seller	Funding/ Price	Date
Secondary Buyout				
Springer Science + Business Media	EQT V and GIC Special Investments	Candover Investments and CinVen	c.£2.07bn	Dec-09
Wood MacKenzie Ltd	Charterhouse Capital	Candover Investments	£553m	Jun-09
Management/Investor Buyout				
CFO Publishing division	Seguin Partners	The Economist Group (TEG)	N/D	Jan-10
Investment / Acquisition				
BPP Plc	Carlyle Group / Apollo Group		£303.5m	Jun-09
Bounty Group Ltd	Barclays Private Equity		£54m	Apr-09
The Motley Fool	BIA Digital Partners and Patriot Capital		\$25m	Oct-09
Disposals				
People Media	IAC, Inc.	American Capital	\$80m	Jul-09
Tottel Publishing Ltd	Bloomsbury Publishing Plc	Matrix Private Equity Partners	£9.96m	Jul-09

Outlook at the Start of 2010

Overall prices achieved for deals will perforce reflect economic reality but strong prices will still follow strong companies. Trade buyers (and, albeit to a lesser extent, financial buyers) in good financial positions are continuing to search out smaller, complementary businesses and assets that can demonstrably confer a unique market position, growth potential and high-quality earnings.

In this environment appointing the right professional advisers to represent you in any transaction is as important as ever. The right adviser will have:

- Experience of having led, structured and completed scores of transactions in the industry.
- An intimate knowledge of the relevant buyers: their acquisition priorities and approach, and how to interact with each one to effect.
- Expertise and credibility in positioning a business and presenting it in the best possible light, with the correct amount of detail on the correct topics.
- A mastery of all facets of both the publishing process and the transaction process to help both the buyer and seller identify the strategic fit.
- Meticulous attention to detail, foresight and drive to manage all parties' objectives to a successful close.
- A negotiating style appropriate to dealing with senior management in this particular industry environment; and a project management style appropriate to collaborating effectively with the professional advisors (legal, tax accounting or otherwise) involved.

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