cribb greene Report

A report on newspaper merger and acquisition activity

Montana: 406-586-6621 · Virginia: 434-971-8344

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Confidence is returning for mids and smalls, large newspapers still troubled

Mid and small publications showing modest improvement

The market for newspapers and other publications is gaining some momentum as we move further into 2011, but is still unsettled. Several of the smaller newspaper bankruptcy sales have moved or are moving through the process with values under 4x trailing EBITDA.

However there are private sales of good quality properties which are bringing stronger values. A group with operations in several states has been valued by the market at over 5x EBITDA, and current discussions on several other quality properties are over 5x and in one case is far above this multiple range. Conventional bank loans are still difficult to obtain, and lending is in the 1.5x to 3x EBITDA range forcing buyers to provide a significant portion of equity in these transactions. A number of strong, family-owned groups are electing to avoid bank financing altogether and are using company cash for acquisitions.

Seller financing continues to be an excellent tool in transactions where there is not significant bank debt already in place. The selling values of seller financed properties can be a full multiple or more higher than cash sales (see seller financing story below).

For mid and small market newspapers it seems that the panic surrounding the newspaper industry and the popular thought that the industry is in it's death throws is starting to dissipate. Mid and small market newspapers suffered severely in the

The Cribb Greene Team

CG&A Team

Contact Cribb Greene

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Market
at a Glance

EBITDA valuation multiples for mid and small market papers range from 3x to 6x

recession (as did nearly every other business), but most are recovering. Some of the concern about digital competition is backing off as well - still a major issue but there seems to be understanding that local newspapers continue to be well-positioned businesses into the future. In every case that a new media has been introduced as a newspaper competitor in the market (radio, broadcast TV, cable TV) the end result has been that newspapers take a smaller piece of a larger media pie. It appears it may be the same with digital competition.

However large market newspapers continue to do poorly, with most having had a down first quarter in 2011 after having some modest encouragement in the fourth quarter of 2010. Also of concern is speculation from a number of media analysts that pre-print revenues may decline severely in the next few years. Pre-print revenues have held up fairly well in most newspapers, and their reduction would have a strong negative impact on profits.

Owners of mid and small publications who have been sidelined and waiting for the market to improve may want to consider selling now. Although multiples and deal flow are improving there is little evidence that prices will ever return to the heady days of the past. It may also be a good time for buyers to target the "wish list" properties they've always coveted, as some of these papers may now entertain offers.

Publishing company values are currently in the 3x to 6x trailing EBITDA range although some transactions are higher or lower. Buyers typically look at the most recent performance, and the multiples indicated here are based on stable or improving performance. Companies with declining revenues and EBITDA tend to be valued at the lower end of the multiple scale.

<u>Some of these transactions include significant amounts of seller financing</u> as conventional bank financing is still difficult to obtain, at least at terms deemed reasonable by newspaper buyers.

<u>A tried and true approach for many publication acquisitions</u>

Seller financing a good tool for completing newspaper transactions

Nearly all mid and small newspaper transactions fifteen years ago were financed by the seller, with the change to all-cash deals in recent years coming from the availability of conventional bank loans. However in the current market conventional bank financing for newspaper transactions is difficult to obtain, at least on terms that feel reasonable to borrowers.

Transaction:
Augusta, Georgia

Metro Spirit

Seller financing, where an owner holds an interest-bearing note from the buyer of his newspaper for most of the money to make the acquisition, can be an effective tool to get transactions closed. For years smaller newspaper sales were mostly seller financed (larger newspaper transactions have always been cash sales), but this tapered off in the last few years due to low interest rates and aggressive lending by banks and other lending groups. The near collapse of financing from these sources has created new interest in the seller financed sale.

Seller financing may not be a possibility when the newspaper already has substantial bank debt. Nearly all banks will require that debt be repaid to them before the newspaper can be sold.

A typical seller financed sale structure looks like this:

·Cash down payment of 20% to 30% of the purchase price.

·Balance paid over 5 to 10 years at 5% to 7% interest per annum, many times including a longer amortization period with a balloon payment.

·Part of the balance may be in the form of a non-compete agreement which does not bear interest.

Seller financing allows buyers to make acquisitions without dealing with difficult or impossible traditional financing terms and rates. With seller financing, newspapers can be bought and sold that otherwise would not be saleable in the current market. Owners often receive a higher purchase price when financing the sale, as a reward for their additional risk. Also, with these transactions the seller earns interest on a large part of the purchase price, as opposed to receiving cash at closing, paying income/capital gain taxes, and then investing what's left over at low(er) rates. Sellers that have a use for cash may be able to borrow against the seller-held note, allowing the payments on the note to service the new loan for cash.

Typically, the security a seller has in this deal structure is a first security interest in the newspaper sold, although it can be

The assets of Metro Spirit have been purchased by former Sales Director and Publisher, Joe White.

An alternative weekly, Metro Spirit has been Augusta's Independent Voice since 1989. The publication has been published on Wednesdays and distributed to 300 locations in Georgia and South Carolina. The area's economic engines include Augusta State University, Fort Gordon, and six hospitals including the Medical College of Georgia.

Cribb, Greene & Associates of Charlottesville, Virginia, represented Portico in the sale.

Transaction:
Maryville, Tennessee

The Daily Times

a secondary interest behind a bank if the buyer borrows some of the down payment. If the newspaper deteriorates after the sale, and the buyer defaults on the loan, the seller may be faced with taking his newspaper back and could be in a poor position to do so. Most sellers, particularly those at retirement age, don't want to go back and operate the newspaper, which may be in shoddy condition. This means that choosing a high quality buyer, striking a reasonable deal, and obtaining the best possible guarantees are critical to a seller-financed sale. A good buyer/operator has a better chance of improving the newspaper, and a "reasonable" sale price gives the buyer a better chance at making payments and avoiding default.

Cribb, Greene & Associates Contact Information:

<u>Montana office:</u>

John Cribb, Managing Director
104 East Main, Suite 402
Bozeman, MT 59715

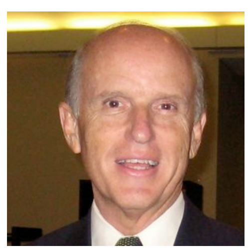
Phone: 406-586-6621 · Fax: 406-586-6774
jcribb@cribb.com

John Cribb

<u>Virginia office:</u>

Gary Greene, Managing Director
1020 Ednam Center, Suite 001
Charlottesville, VA 22903

Phone: 434-971-8344 · Fax: 866-776-8010
ggreene@cribb.com



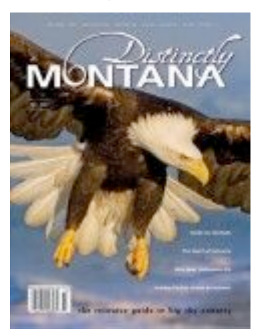
Gary Greene

The Daily Times, a 21,000 circulation six-day daily newspaper serving Maryville, Tennesse has been sold by Horvitz Newspapers to the John M. Jones family/Jones Media Inc. of Greeneville, Tennessee according to **Gary Greene, Cribb, Greene & Associates, who represented the buyers in the transaction.**

Transaction:

Bozeman, Montana

Distinctly Montana Magazine



Distinctly Montana Magazine has been sold by founder Michael