cribb Report

A broker's report on newspaper merger and acquisition activity

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Spring/Summer
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Far more buyers than sellers, with particular interest on weekly clusters

Buyers searching for publications to acquire

Although transactions are being completed in 2005 there are fewer properties available compared to the number of interested buyers ready with financial backing. There are always buyers for daily newspapers, however the change in recent deals has been the high interest in weekly clusters, both with free and paid circulation.

The Gannett Co., Inc. purchase of Hometown Communications, Inc. announced last fall was stalled due to a review by the Justice Department. Justice withdrew any objection to the acquisition early in 2005 and that deal has been completed. Hometown has 62 weekly publications with 740,000 circulation (includes some paid daily and weekly circulation).

Liberty Group Publishing, Inc. was brought to the market last fall but was withdrawn early this year. This company has 67 dailies and 258 weeklies in fifteen states and revenues of nearly $200 million. Speculation is that a high enough bidder was not found and the company chose instead to restructure debt. Liberty is actively pursuing properties to purchase and appears to have returned to a growth-by-acquisition mode.

Owners of mid-size and large weekly groups are still, for the most part, sitting on the sidelines and not placing their companies on the market even though values are at historic highs. This situation may well change in the coming months as some longterm owners decide to capture the current high return on investment. Smaller weeklies/clusters (in the $1 to $4 million revenue range) are taking advantage of this strong market and a number of properties in this size will be sold this year.

Pricing continues to hold steady for dailies at 11 to 14 times EBITDA for larger circulation papers and 8 to 11 times for those under 10,000 paid circulation. Weekly groups are bringing a wide range of 8 to 12 times EBITDA with the under-managed properties bringing the higher multiples.

Strategic buyers can increase values

Geographically strategic buyers are driving prices more than in past years. Publications with contiguous or competing neighbors in every direction many times can maximize the value of the company through a competitive bidding process. Strategic buyers can generally pay more for a nearby acquisition both because market share is increased and shared costs.

Conversely, papers with no strategic buyers in the area can be difficult to sell, as there is a lack of buyers seeking stand alone properties.

Market *at a* *Glance*

Daily Newspapers
All dailies actively sought at 8 to 14 times EBITDA*. Dailies over 10,000 circulation at 11 to 14 times EBITDA or 2 to 4 times publishing revenues. Smaller dailies at 8 to 11 times EBITDA or 1.5 to 3 times publishing revenues.

Weekly Groups, Free or Paid Circulation
Actively sought at 8 to 12 times EBITDA or 1 to 3 times publishing revenues.

Large Weekly & Twice Weekly Newspapers and Shoppers
(over $1 million revenues)
Actively sought at 6 to 9 times EBITDA or 1 to 2 times publishing revenues.

Small Weekly Newspapers and Shoppers
(under $1 million revenues)
Moderate activity at 5 to 7 times EBITDA or .75 to 1.25 times publishing revenues.

Specialty and Niche Publications
Specific niches sought at 4 to 8 times EBITDA or 1 to 3 times publishing revenues. Wide pricing variation depending on niche.

Always some exceptions
*See EBITDA definition page 3

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Print more influentual than broadcast media

Print media is much more effective in reaching influential Americans than is broadcast, according to a recent study conducted by NOP World, the parent company of Mediamark Research, Inc.

Influential Americans, as defined by NOP, are the top “10% of the population who drive what the other 90 percent think, do and buy.”

NOP’s research shows that only 14% of influential Americans are heavy users of TV and 20% are heavy users of radio, while 41% of influential Americans are avid newspaper readers. Magazines also perform well, recording a 31% usage by the survey group.

Reaching specific clusters of people is important to national advertisers, and daily newspapers are happy with the report in the face of declining circulation numbers.

Newsprint prices up

Open market newsprint has been increased to about $560 a short ton in early 2005 by several suppliers, however this increase may not stick. Some suppliers are staying at $520 to $522 at the present time.

Cribb & Associates’ Broker: Tom Karavakis

In 1971 Add Inc., a wholly-owned subsidiary of Journal Communications, Inc., was founded by Tom Karavakis with a shopper startup in the town of Waupaca, Wisconsin. Add Inc. accelerated its acquisition program with the purchase of two adjoining markets. This was followed by further clustering of publications and the building or purchase of printing plants to service those clusters.

Add Inc. was sold to Journal Communications, Inc. in 1981. Journal Communications is a multimedia company that includes the Milwaukee Journal-Sentinel, various television stations, over 40 radio stations and other media interests. Tom was named to the Journal Communications, Inc. board in 1984 and later served as senior vice president and one of five trustees of the parent company.

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At Tom’s retirement as CEO of Add Inc., it owned and operated 75 publications and nine printing plants in nine states. Revenues were approximately $100 million annually.

Prior to founding Add Inc., Tom spent a number of years in the business side of the radio industry and was a broker with Paul Chapman & Associates broadcast brokerage in Atlanta, Georgia. He joined Cribb & Associates as an Associate Broker in 1997. Tom lives with his wife Ally in Naples, Florida.

Newspapers celebrate 400th anniversary

Strasbourg, Germany—Two Germans have proclaimed that the summer of 2005 marks the 400th anniversary of the beginning of newspaper publishing.

Martin Welke, founder of the German Newspaper Museum, together with Professor Jean Pierre Kintz, a Strasbourg historian, told the World Association of Newspapers that their research shows that Johann Carolus was the first newspaper publisher.

In a news release they said that Carolus, of Strasbourg, earned his living by producing handwritten newspapers from news he obtained from paid correspondents. His publications were distributed to wealthy subscribers at very high prices. In 1604 he bought a printing shop and in 1605 began printing his newspapers, earning more money by printing more papers at a lower price.

Shortly after beginning his newspaper printing operation, Carolus petitioned the Strasbourg City Council requesting protection from other printers reprinting his news articles. Based on this precedent, copyright laws were later enacted.

Please visit the updated cribb.com

The Cribb & Associates, LLC website at cribb.com has received an update and overhaul which we hope our clients find useful.

There is now a Preferred Client area exclusively for publishing company owners and executives, that includes pdf files of current and past Cribb Report and WEEKLIES newsletters, EBITDA valuation multiples and margins for various types of publications, as well as other valuation and sale information. Please go to cribb.com and complete the Preferred Client Form and your Preferred Status will be activated.

Activate your Preferred Status at cribb.com

EBITDA Definition

EBITDA (Earnings Before Interest, Taxes, Depreciation, Amortization) is also known in the merger and acquisition field as "Cash Flow." Looked at on an annual basis, EBITDA / Cash Flow is the true operating profit of a business.

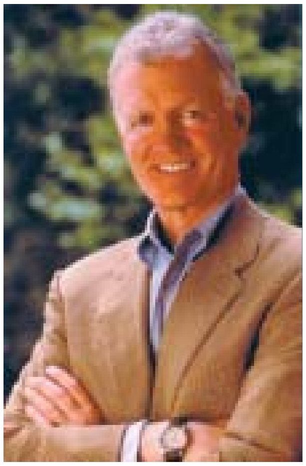
The components of EBITDA / Cash Flow are:

- Net profit (or loss)
- Interest expense
- Income taxes (not payroll)
- Depreciation
- Amortization
- Extraordinary costs*

*Examples of extraordinary costs could include salary to an owner that is higher than that of a normal manager salary, or other costs charged to the business but not true operating costs of the business.

Scott Miller:

The End



The "old media" are dead. It's all over. Newspapering, as we knew it, is on the edge of extinction. The old media are dead because of the information revolution. (I recognize the irony: information killed the old media??!!) It's true; consumers today have more and more choices in the information marketplace. You can get news, weather and sports on your cell phone or pocket game player. Given the choice, they choose customized and personalized information; what they want, when and where they want it.

That doesn't mean the "new media" are immune to the forces of choice and change (the basic components of the information revolution). Web sites die daily. The latest whiz-bang cell phone is obsolete by the end of the month. The difference between "old" and "new," it turns out is not the difference between print and digital – it's about attitude and commitment. The attitude is about welcoming change, not fearing it; the commitment is to the customer / reader.

That's what the "new marketing" is all about, too. The carpet bombing approach of mass marketing is clearly no longer effective (that doesn't mean big marketers aren't still spending hundreds of millions of dollars on that approach). Many big brands are losing steam, while the energy and innovation in most marketing today is coming from tiny niche, personalized and customized brands.

How do you make sure you don't follow the rest of the dinosaurs? Decide your organization is going to think like a hungry insurgent, not a lazy incumbent (to find out how, read a book called The Underdog Advantage from McGraw-Hill). Learn to embrace change. And pay your customers the ultimate (and most important) compliment: understand their lives, their needs, their wants and their hopes. Suddenly, you're "new media."

Scott Miller is a political and corporate strategist, the founder of Core Strategy Group, and co-author of several books on branding and marketing.

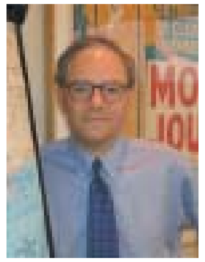
Key Newspaper Executive Question:

"Which newspaper publishing segment will have the best revenue growth in the next ten years: paid dailies, paid weeklies, free dailies or free weeklies?"

The Cribb Report posed this question to key newspaper executives and their thoughts primarily leaned toward growth in free and paid weeklies, but included free dailies. Missing are expectations of strong growth in paid circulation dailies.

John Tompkins, President, News Media Corporation:

"Paid weeklies are the newspaper publishing segment that'll experience the best relative revenue growth. Classified, circulation and chain store revenue aren't as important to their overall revenue compared to dailies. Television, other print, radio and Internet competitors are negligible in and around very small markets. Lastly, paid weeklies usually enjoy a stronger and more personal relationship with most of the small business owners and managers."



Jeremy Halbreich, Chairman and President, American Consolidated Media:

"Paid weeklies have outperformed paid dailies in revenue growth over the past five years or more and our sense is that free weeklies have outperformed paid weeklies over the same period of time. These growth patterns will continue into the future. While free dailies today represent a relatively small piece of the total pie, they clearly tap into strong consumer desires and demand. The increased level of interest and pace of new launches in the free daily segment clearly suggests that revenue growth will be strong and likely the strongest of any of these segments over the next five years. While paid dailies and paid weeklies will continue to be great businesses for many years to come, our bets are riding on the free weeklies and free dailies to post revenue growth rates well above those of the paid dailies and paid weeklies."

Mike Reed, President & CEO, Community Newspaper Holdings, Inc.:

"I wish I knew the exact answer to that question right now. It would sure make things a little bit easier. The paid products, especially our dailies, are a very old, mature business. That makes larger revenue growth tougher to obtain.

If you are looking at this question from strictly a percentage perspective I would have to say that free dailies will have the "best revenue growth." Mainly because they are starting from a much smaller base and there are so many fewer of them. That's not to say we can abandon our paid products though. In many cases they are the biggest and most critical asset in our portfolios and we need to continue to find ways to leverage and grow them. We have to find completely new ways to reach our markets/audiences with our paid products so that they work more effectively for all of our customers and for the communities they serve. Our paid products, for the most part, have been around for over 125 years. They are very resilient businesses and have withstood the test of time. We need to move them into the next age."

Gene Carr, Chief Executive Officer, ACN Holding LLC:

"Metropolitan free suburban weekly newspapers. As the circulation decline continues in paid daily newspapers coupled with the fact that the increases in occupied household units are occurring further out from the core city, advertisers are forced to look elsewhere. Suburban weeklies that produce strong local news content along with circulation penetration levels of at least 75% will garner increased business from big box retailers and major national accounts along with local business."

Mike Abernathy, President, Landmark Community Newspapers, Inc.:

"I believe free papers will experience more revenue growth than their paid counterparts over the next 10 years. Most of these papers are in their infancy and should grow at a faster pace in their early years. It will first be necessary, though, for free papers to deliver a quality news product that is useful and trusted by readers. Advertisers will require some form of verification of readership.

The more important question is whether revenue will grow enough to make them consistently profitable. The challenge for free papers, particularly those in competitive markets, is to maintain a cost structure that allows them to be profitable despite an absence of circulation revenues and more competition than traditionally faced by newspapers. Free newspapers that are entrants to markets with existing newspapers will probably struggle with profitability as incumbent papers learn how to adapt and respond to new and unwelcome competition."

Travis Rockey, Executive Vice-President, Evening Post Community Publications Group:

"The paid weeklies segment will probably have the best revenue growth in the next ten years because:

a) Well-established paid weeklies have very local content, a loyal audience and the potential to leverage frequency of publication thus increasing revenue.
b) Circulation rates for daily newspapers have been maxed out, while weekly newspaper circulation rates are generally low leaving them a good opportunity for growth.
c) Very small dailies (under 10,000) will likely change cycle to tri-weekly or bi-weekly as the economics of the industry change. The upside for those publications is that they will likely be more profitable and have an opportunity to re-channel their resources to alternative publications.
d) Marrying paid weeklies with a non-subscriber shopper (or possibly a TMC if common ownership with a daily) will enhance revenue growth from pre-print advertisers while protecting the weekly franchise long term.
e) Paid weeklies are being purchased by dailies offering the opportunity to enhance advertising sales efforts from the staff of both publications."

<u>*Although still a small part of total advertising spending, the Internet is making extraordinary gains*</u>

Internet advertising growth phenominal

By Nathan Greene

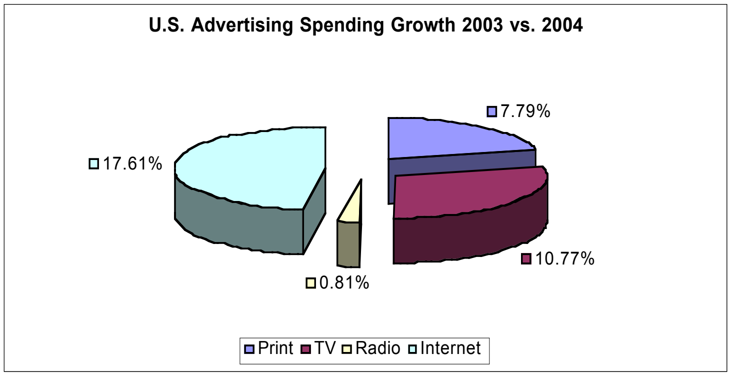
Market Pulse

Spending on Internet advertising accelerated at a record pace in 2004 finishing the year with a 17% increase and led by a fourth quarter surge that was 24% ahead of the fourth quarter of 2003, according to numbers released in March by the Interactive Advertising Bureau.

Internet advertising spending is still behind traditional advertising mediums, but it is projected that it will overtake radio advertising within the next 5 to 7 years.

Coupled with the online growth, the acquisition of new media advertising companies has been on the rise since America Online (Time Warner) purchased Advertising.com in late 2004. The grandfather of online advertising, Advertsing.com had $132m in revenue in 2003, and was purchased at $435m in August by AOL.

The New York Times announced in February its intention to purchase About, Inc., a leading online consumer information provider from PRIMEDIA Inc. About, Inc. was valued at approximately $410m. With 22 million unique visitors a month, About.com will add to the New York Times 350 million average page views per month across its 40 websites which include NYTimes.com and Boston.com. The transaction valued About, Inc. at around 23 times EBITDA and ten times its 2004 revenues.



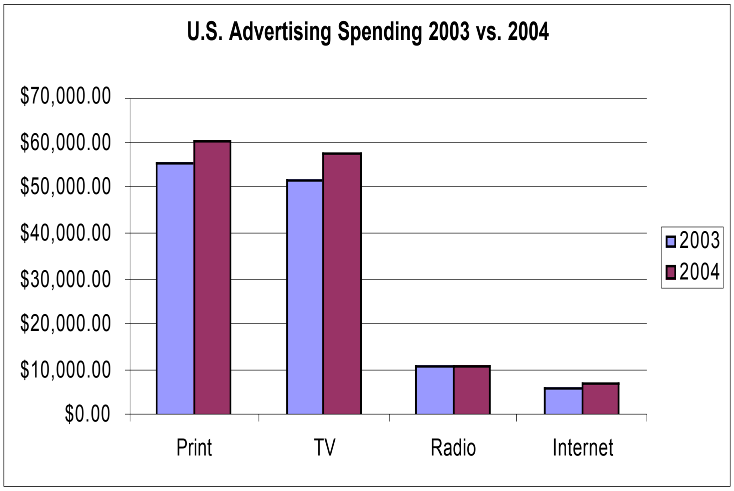
Low Cost Is Attractive

The name of the game in all advertising is cost of volume. How much will it cost to send one million pieces of mail, compared to one million pieces of e-mail? How many impressions of banner advertising can be purchased, and how many conversions will that generate, compared to the cost of a Sunday quarter page ad? What kind of results and margins do I and my clients really see at the end of the advertising day?

With the advent of the Internet and the associated technologies, traditional advertising mediums are looking for better ways to compete and generate advertising results. Online media, when used correctly, can return advertising results in less than 24 hours, telling the advertiser who is interested in their product, where that interest came from, and what online advertising channels are returning results. All of that is done at a low cost per thousand and offers real-time tracking results.

Introducing a dual advertising model and utilizing both traditional and online vehicles can prove beneficial to both the advertiser and their client, showing real-time results and allowing retailers to get their goods and services to the masses as efficiently as possible.

With the online advertising market maturing, reaching consumers and target demographics on portable electronic devices such as PDA's, text mes-



Internet ad growth *continued from previous page*

saging capable phones, and over instant messenger is becoming a reality as well as e-mail and banner advertising.

Internet Surpasses Yellow Pages

The Kelsey Group and ConStat, Inc. indicated in a study released in March another significant milestone reflecting how consumers use media, reporting that the Internet rivals the two largest traditional media sources for advertising for local merchants, Newspapers and the Yellow Pages. The study found that seventy percent of households now use the Internet to search for local products, up from sixty percent in 2003. Newspapers fell thirteen percentage points to sixty percent in the same study, with the Yellow Pages following in the third largest drop to sixty-two percent. Over fifty-five percent of those polled said they use large search engines such as Google to search for deals and research prices.

Sources: http://www.iab.net/news/pr_2005_2_22.asp; http://www.internetadsales.com/modules/news/article.php?storyid=4985: http://media.timewarner.com/media/newmediacb_press_view.cfm?release_num=55254061: http://biz.yahoo.com/bw/050217/175849_1.html: http://publications.mediapost.comindex.cfm?fuseaction=Articles.san&s=28378&Nid=12664&p=279307

Robin Flynn on broadcast values:

Ready financing keeping broadcast station values intact

Radio and TV station values in the private market are holding firm thanks to continued strong demand for properties and buyers' access to ample financing.

There's no question that private market values are above those of the public equity market. In radio, quality stations typically trade for 15x-17x vs. the public range of 10x-13x, and for TV stocks, the private market is at 12x-14x vs. the recent trading patterns of 10x-11x for TV station stocks.

In 2004, we estimate that $1.2 bil. of TV stations were sold at an average c.f. multiple of 12.3x, and brokers were involved in 45% of the deals. On the radio side, $2.7 bil. of stations traded hands (39% brokered share), at an average 13.7x multiple.

In radio, the next 18 months could bring a more vibrant deal market, because there is currently more station inventory available for sale, as well as better quality inventory. Buyers believe that a significant number of stations will come available, after recent slow revenue growth has prompted company boards to ask tough questions about whether the assets might not be worth more in someone else's hands.

But there's a strong floor under station values, propped up by ample availability of bank debt and private equity, of 10x-12x c.f.

On the TV station side, further deregulation (not expected before 2006) would improve TV station economics, and if it comes, consolidation could happen quite quickly.

There are more than a couple dozen small companies with one to four TV stations out there, which are likely to sell at some point. Currently however, there still isn't much station inventory on the deal market, and the bid-ask spread persists, despite the massive amounts of debt and equity chasing TV deals.

Most buyers are at 8x-10x, but the sellers are at 13x-15x. However if the station is a duopoly candidate or a regional play, buyers will pay 13x without a question.

Robin Flynn is a Senior Analyst and Valuation Expert on Broadcast Media with Kagan Consulting Services, and can be reached at: robin@kagan.com.

Cribb & Associates, LLC
is pleased to offer our congratulations to:

The Bassett Family, who sold the Spee-Dee Mailing Services, Elko, Nevada, cluster to Diversified Suburban Newspapers.

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The Irwin Family who sold the Tri-Village Pennysavers, Ithaca, New York to the Walton Family.

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The Davis Family who sold The Shopper, New Bern, North Carolina to Freedom Communications, Inc.

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The Johnson Family who sold the 3 times weekly News Eagle, Hawley, Pennsylvania to Liberty Group Publishing, Inc.

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Independent Publications, Inc., who sold the Gadsden County Times, Gadsden, Florida to Gemini Newspapers, Inc.

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The Pace Family who sold the twice weekly Herald-Progress, Ashland, Virginia to the CV Corporation.

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The Larkin Family who sold the music niche publication cluster Larkin Publications, Needham, Massachussetts to Symphony Publ.

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The McLauglin Family, who sold the twice weekly and weekly newspaper cluster, Paola, Kansas to the St. Joseph News-Press.

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The Thomson Family, who sold the daily Delaware Gazette and Sunbury News, Delaware, Ohio to Brown Publishing Company.

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The McKinney Family who sold the Valley Town Crier cluster, Brownsville, Texas to American Consolidated Media.

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Independent Publications, Inc. who sold the daily Finger Lakes Times, Geneva, New York to Community Media Group.

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The Schroeder Family who sold the Five County Buyer's Guide, Ripon, Wisconsin to Journal Community Publications.

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