



2011 Mid-Year Digital Media M&A Review

PEACHTREE CAPITAL ADVISORS

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Peachtree Capital Advisors, Inc. is a New York-based investment bank providing M&A advisory services to growth and middle market technology, digital media, and green technology companies both in the U.S. and abroad. With 15 years of experience, Managing Director and founder John Doyle has closed and structured over 25 deals and possesses a strong knowledgebase of financial and strategic buyers in these sectors. If you are interested in learning more about valuation, positioning, preparation, or the merger and acquisition process, please visit www.peachtreecapitaladvisors.com or contact John Doyle at 212-570-1009.

Digital Media M&A Activity in the First Half

U.S. digital media M&A ended the first half of 2011 with 491 mergers, acquisitions, and capital raises for a reported total of \$20.3 billion. Although the deal volume was down 13% from the first half of 2010, reported deal value rose 126%, in large part due to Microsoft's \$8.5 billion acquisition of Skype as well as rapid growth in MOBILE and E-COMMERCE. An uncertain U.S. economy resulted in slowing mergers and acquisitions activity, but did not temper enthusiasm in the venture funding community. Total first-half investment in

digital media increased substantially, offering optimism to a sector that continues to grow despite less-than-perfect economic conditions.

Meanwhile, digital media valuations declined from year-end 2010, with revenue multiples falling slightly from 2.6 to 2.5 and EBITDA multiples taking a sharper dive from 18.9 to 14.2. Although E-COMMERCE grew rapidly in the first half, it was chiefly responsible for the decrease in EBITDA multiple, as its mean EBITDA

multiple declined sharply from 41.7 to 22.3. The lowered revenue and EBITDA multiples refute the notion that a bubble is forming in digital media, despite the impressive valuations that digital media companies have been earning in recent high-profile IPOs.

MERGERS & ACQUISITIONS

Although fewer mergers and acquisitions occurred in the first half compared to the same period last year, the average deal size

Figure 1: 2011 and 2010 First Half Transaction Volume Comparison

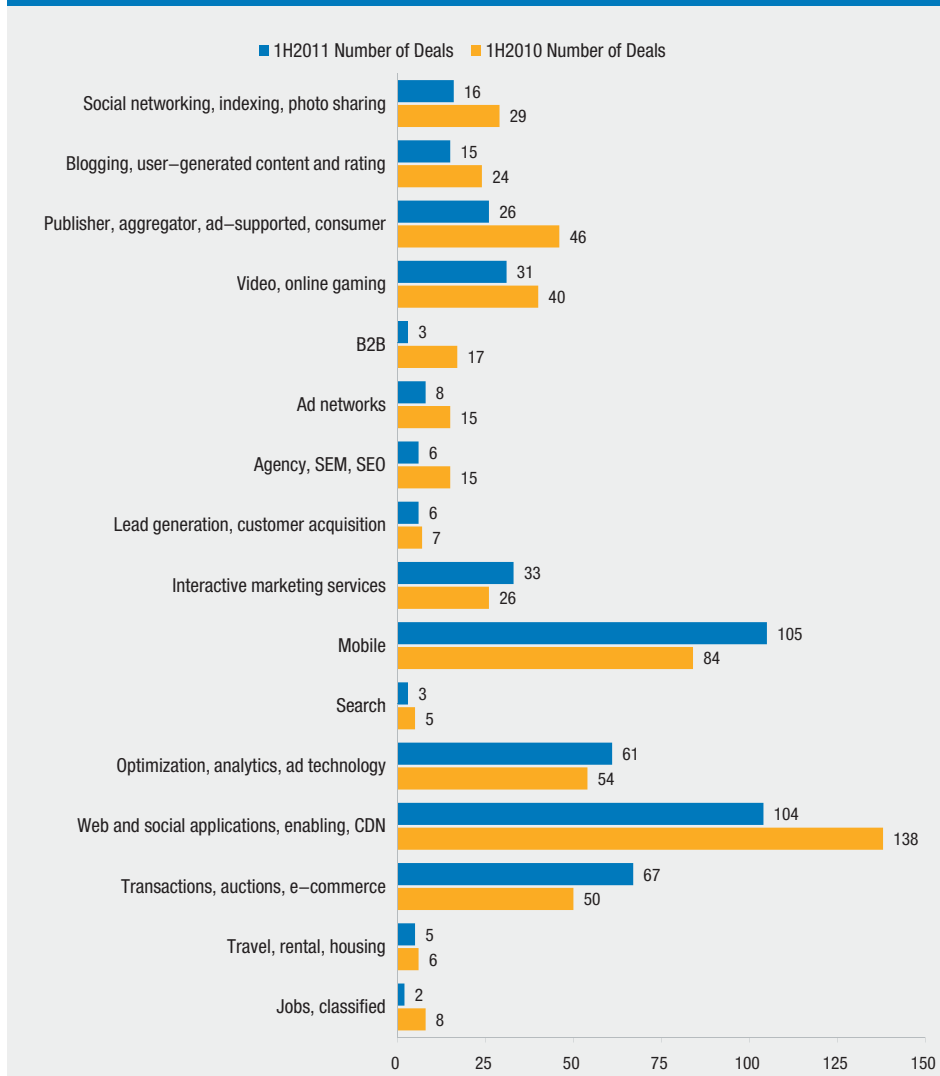


Figure 2: 2011 Online Sector Categories

Consumer	Social networking, indexing, photo sharing Blogging, user-generated content, rating Consumer publisher, aggregator, ad-supported Video, online gaming
Online Business Services	B2B Ad networks Agency, SEM, SEO Lead generation, customer acquisition Interactive marketing services, email
Mobile	Mobile content Mobile applications Mobile interactive marketing services
Enabling, Analytics, Ad Serving	Advertising technologies Optimization and analytics Web applications, enabling, IT Search Content delivery networks
Commerce	E-commerce, comparison shopping Transactions, auctions Travel, rental, housing Jobs, classifieds

Digital Media M&A Activity in the First Half

in digital media increased significantly, indicating continued maturation of the still-young sector. The 151 mergers and acquisitions announced in the first half were 36% fewer than the 235 posted in 1H10, yet, despite this drop, larger deal sizes pushed reported deal value 95% higher to \$13.1 billion.

The decline in M&A volume during the first half was primarily the result of increased uncertainty in the U.S. economy. Although most mature technology and digital media corporations had a significant amount of cash at their disposal, most chose not to utilize their cash reserves to grow through acquisitions at a time when volatility in the stock market was on the rise and many feared a double-dip recession was on the horizon. As a result, corporations in the digital media sector employed a “wait-and-see” M&A approach, a trend likely continue through the re-

mainder of 2011 as uncertainty in the U.S. economy grows.

Although the slowdown in M&A volume affected most digital media sectors, its impact was most evident in the CONSUMER and BUSINESS SERVICES sectors. CONSUMER mergers and acquisitions only totaled 34 in the first half, down 53% from 1H10, as compelling acquisition targets were noticeably far and few in between. The sector has seen a handful of social networks, blog networks, and publishers emerge as clear leaders of their respective markets; the dominance of these companies has stifled the competition and discouraged the arrival of new entrants, such as in the case of Facebook, which essentially cornered the market for social networking. M&A volume also stagnated in BUSINESS SERVICES as the focus in digital media evolves from traditional advertising agencies and interactive marketing services toward targeted

advertising technologies that rely heavily upon analytics. After recording 43 transactions in 1H10, BUSINESS SERVICES managed only 21 in the first half this year.

CAPITAL RAISES

While mergers and acquisitions finished the first half to mixed reviews, digital media investments enjoyed a stellar first half punctuated by a 220% increase in the amount of capital raised. Despite posting an identical 340 transactions, total reported investment rose from \$2.2 billion in 1H10 to \$7.2 billion as the average round of funding more than tripled in size.

The robust increase in first-half digital media investment benefited both early-stage and late-stage ventures. Mobile and advertising technology companies were the primary beneficiaries of the increase in early-stage venture capital. In particular, MOBILE benefited from strong consumer demand for media availability on smartphones and tablets, while advertising technology firms benefited from the current trend toward targeted advertising solutions. The number of MOBILE capital raises in the first half increased 58% to 76 while capital raise value increased 185% to \$745 million. At the same time, OPTIMIZATION, ANALYTICS & AD TECHNOLOGY recorded 38 capital raises for a total recorded value of \$387 million, up from 37 raises and \$296 million in 1H10.

Meanwhile, E-COMMERCE was the primary beneficiary of increased late-stage venture funding. Funding rounds by E-COMMERCE companies Groupon, LivingSocial, and Coupons.com accounted for three of the four largest capital raises announced in the first half. E-COMMERCE garnered the attention of investors in the first half due to the rapid proliferation of group buying and flash sale sites in the past year. ■

Figure 3: 1H2011 vs. 1H2010 Reported Transaction Value

Transaction Value (\$M)	1H2011	1H2010	% Change
Social networking, indexing, photo sharing	1,904	68	2,700%
Blogging, user-generated content and rating	297	101	194%
Publisher, aggregator, ad-supported, consumer	559	345	62%
Video, online gaming	339	496	-32%
B2B	20	3,623	-99%
Ad networks	239	207	15%
Agency, SEM, SEO	2	597	-100%
Lead generation, customer acquisition	42	706	-94%
Interactive marketing services	755	82	821%
Mobile	1,138	544	109%
Search	35	58	-40%
Optimization, analytics, ad technologies	2,051	413	397%
Web and social applications, enabling, CDN	9,678	792	1,122%
Transactions, auctions, e-commerce	3,211	723	344%
Travel, rental, housing	21	13	62%
Jobs, classified	5	232	-98%
Total	\$20,296	\$9,000	126%

Trends and Developments in Digital Media M&A

DEAL SITES FUEL E-COMMERCE

Despite investor concerns that deal sites are not sustainable because of high customer turnover, capital raise activity increased dramatically for limited-time deal sites in the first half of 2011. Meanwhile, media and technology giants caught onto the trend by offering their own daily deals: the New York Times launched TimesLimited in March, Google Offers and Facebook Deals launched in April, and eBay and Amazon entered the flash sales space.

While most daily deals sites relied on venture capital for funding, top players in the online coupon space also contemplated IPOs as potential funding sources. After rejecting a \$6 billion offer from Google at the end of 2010, leading group buying site Groupon announced in January that it had raised a massive \$950 million from investors, the largest amount ever raised by

a start-up company, and filed for an IPO in June. LivingSocial, Groupon's main rival, countered with a \$400 million raise in April, then announced that it was filing for an IPO in early July. Coupons.com also announced a \$200 million raise in June—potentially in preparation for a 2012 IPO.

In contrast, consolidation was a major theme in the first half among members-only flash sale sites. In February, Nordstrom acquired HauteLook for \$270 million in February. eBay followed in March by acquiring GSI Commerce and its flash-sales site Rue La La for \$2.4 billion. In May, Amazon launched its own flash-sales site MyHabit.com and French flash-sales site Vente-privee announced that it would be collaborating with American Express for a U.S. debut. The arrival of larger players in the flash sales space increases competitive pressures and indicates that more M&A may be on the way.

SOCIAL MARKETING & ANALYTICS DRIVE AD OPTIMIZATION

M&A and investment activity in the CONSUMER space centered on the largest players due to continued consolidation and decreased early-stage venture activity in the sector. Social networking giant Facebook led the way with a \$1.5 billion raise—the largest capital raise of the first half—in January.

While SOCIAL NETWORKING investments have dropped sharply over the past couple of years due to consolidation, momentum has shifted over to social marketing and analytics during this period, and the space was a hotbed for M&A activity in the first half of 2011. Enterprise cloud computing company Salesforce.com bought social media monitoring and analytics company Radian6 for \$326 million in March. Then in May, search engine marketing firm Efficient Frontier bought Context Optional, which helps marketers reach consumers on social networks, for \$50 million. Google also participated in the M&A flurry with the acquisitions of social media analytics company PostRank and movie recommendation-tweeting start-up flick; these acquisitions affirmed the company's focus on using social networking to improve its search engine accuracy and associated advertising precision.

The new focus on social marketing and analytics has also concurrently given rise to increased attention for advertisement optimization technologies. The largest acquisitions in the advertising arena were those of ad optimization companies. Digital ad distributor DG Fastchannel paid \$517 to acquire Mediaind in June, enabling it to penetrate global markets and improve its focus on digital video advertising, and Google acquired AdMeld in June for \$400 million, advancing its advertising sales technology.

Figure 4: Top 20 Transactions in 1H2011 by Deal Value

Buyer/Investor	Seller	Deal Type	Date	Price (\$M)
Microsoft	Skype	Acquisition	May-11	8,500.0
Private Investors	Facebook	Capital Raise	Jan-11	1,500.0
Andreessen Horowitz and 7 others	Groupon	Capital Raise	Jan-11	950.0
Publicis	Rosetta	Acquisition	May-11	575.0
DG Fastchannel	MediaMind	Acquisition	Jun-11	517.0
Amazon.com	Quidsi, Inc.	Acquisition	Apr-11	500.0
Walgreens	Drugstore.com	Acquisition	May-11	429.0
Google	AdMeld	Acquisition	Jun-11	400.0
Private Investors	LivingSocial	Capital Raise	Apr-11	400.0
Autonomy	Iron Mountain	Acquisition	May-11	380.0
–	LinkedIn	IPO	May-11	352.8
Salesforce.com	Radian6	Acquisition	Mar-11	326.0
AOL	Huffington Post	Acquisition	Mar-11	315.0
–	Pandora	IPO	Jun-11	234.9
JMI Equity, Bank of America	Adknowledge	Capital Raise	Jan-11	200.0
Private investors	Coupons.com	Capital Raise	Jun-11	200.0
Visa	PlaySpan	Acquisition	Feb-11	190.0
–	Demand Media	IPO	Jan-11	151.3
Skype	Qik	Acquisition	Jan-11	150.0
Softbank and 3 others	Gilt Groupe	Capital Raise	May-11	138.0

Trends and Developments in Digital Media M&A

MOBILE APPLICATIONS GROWTH

In the first half of 2011, total MOBILE deal volume increased by 25% over 1H10 from 84 deals to 105 deals, and total deal value doubled from \$543 million to \$1.1 billion. As consumers continue moving toward mobile technologies, mobile phone and tablet applications have been in-demand areas of investment.

In particular, MOBILE investors in the first half focused on e-commerce, advertising, social games, and social communication. In mobile e-commerce, Visa acquired payment platform PlaySpan for \$190 million in February, eBay bought mobile payment application Fig Card in April, and mobile credit card reading application developer Square announced a \$100 million capital raise in June. Mobile advertising was headlined by the acquisitions of mobile ad networks Greystripe and Tatto Media for a respective \$75 million and \$65 million, while mobile gaming was led by Glu Mobile, which raised \$15 million through a January IPO, and Japanese mobile gaming platform Gree, which purchased OpenFeint, the largest mobile gaming network in the U.S., for \$104 million in April. In mobile social communication, Skype bought video streaming application Qik for \$150 million in January (before being acquired by Microsoft), and Facebook bought group instant messaging application Beluga in March.

SHIFTING MEDIA LANDSCAPE

As consumers spend more time in front of their computers, online content is superseding conventional newspapers and magazines. The shifting landscape was exemplified through the February merger of traditional publisher Newsweek—whose circulation has been dwindling—and online news site The Daily Beast, but also through the successful exits of other digital content providers. Online publisher

Demand Media, whose properties include Q&A site eHow, health and fitness site Livestrong.com, and humor site Cracked.com, raised \$151 million through its January IPO, and The Huffington Post was acquired by AOL in March for \$315 million—yet another attempt by the former ISP giant to reinvent itself.

Online entertainment also thrived in the first half of 2011. In music, Pandora's \$235 million IPO demonstrated investor confidence in the online music space, and Facebook's partnership with music streaming service Spotify figures to unite consumer music experience with social networking.

Video streaming, in particular, was the highlight of online entertainment financial activity. In May, Microsoft bought Skype for \$8.5 billion, enabling it to compete with Google Voice and Apple FaceTime; it was the single largest acquisition in the history of Microsoft. Additionally, Amazon, Apple, Google, and Yahoo each engaged in talks to purchase online video streaming site Hulu. Finally, Netflix began offering unlimited streaming at the end of 2010, and in early July, it made streaming the primary subscription option, signaling that video's future is in online streaming.

OTHER NOTABLE TRANSACTIONS

Consumer staples go online

Amazon bought online retailer Quidsi in April for \$500 million. Then, on May 24, Walgreens bought Drugstore.com for \$429 million. These acquisitions indicate that companies are confident in the future of selling consumer staples online.

Autonomy acquires Iron Mountain division

U.K.-based provider of cloud-based legal and e-discovery services Autonomy continued its strategy of pursuing cloud-based customer data processing by buying the archiving, e-discovery, and online backup division of Iron Mountain for \$380 mil-

lion in May, making Autonomy one of the world's top 10 data protection providers.

Digital advertising growth continues

Online advertising company Adknowledge announced in January that it had raised \$200 million to help advertisers access display, mobile, and video advertising in the long tail marketplace. French advertising and communications company Publicis Groupe also shifted toward digital interactive advertising, acquiring digital advertising company Rosetta for \$575 million in May. ■

Valuations

Figure 5: Public Market Valuations (\$M)

Sector	Company	Market Cap	Total Debt	Cash	Enterprise Value	LTM Revenue	LTM EBITDA	REV Multiple	EBITDA Multiple
Consumer, Advertising, Search	Google Inc.	163,180	5,100	36,680	131,600	31,120	12,160	4.2x	10.8x
	IAC/InterActiveCorp	3,430	96	1,320	2,206	1,720	195	1.3x	11.3x
	Netflix	13,800	236	343	13,693	2,390	365	5.7x	37.6x
	Scripps Networks Interactive	8,220	884	794	8,311	2,130	920	3.9x	9.0x
	The Knot, Inc.	314	0	101	213	113	11	1.9x	20.0x
	WebMD Health Corp	2,630	800	1,070	2,360	558	142	4.2x	16.6x
	Yahoo! Inc.	19,600	40	2,790	16,850	5,940	1,420	2.8x	11.9x
	AOL Inc.	2,120	99	382	1,837	2,300	580	0.8x	3.2x
	LinkedIn Corporation	8,520	0	106	8,414	292	38	28.8x	222.2x
							MEAN	3.4x	16.7x
Diversified Agency	Interpublic Group of Cos.	6,110	1,730	1,850	5,990	6,670	714	0.9x	8.4x
	Omnicom Group	13,540	3,210	1,520	15,230	12,770	1,890	1.2x	8.1x
							MEAN	1.0x	8.2x
E-Commerce	Amazon.com Inc.	92,440	0	6,880	85,560	36,930	1,790	2.3x	47.8x
	eBay Inc.	41,880	1,790	6,760	36,910	9,510	2,910	3.9x	12.7x
	Expedia	7,920	1,650	1,820	7,750	3,450	828	2.2x	9.4x
	Monster Worldwide	1,790	120	191	1,719	960	88	1.8x	19.6x
	Move, Inc.	348	0	85	263	198	12	1.3x	22.8x
	Ancestry.com	1,900	0	102	1,798	328	105	5.5x	17.1x
	Priceline	25,420	575	1,750	24,245	3,310	908	7.3x	26.7x
	OpenTable	1,960	0	55	1,905	111	28	17.1x	67.8x
								MEAN	3.5x
Interactive Marketing Services	Digital River Inc.	1,280	354	723	911	363	46	2.5x	19.6x
	Inuvo, Inc.	18	4	2	21	51	2	0.4x	11.6x
	LivePerson Inc.	745	0	67	678	115	24	5.9x	28.6x
	QuinStreet, Inc.	609	111	150	570	397	74	1.4x	7.7x
	ValueClick Inc.	1,310	0	200	1,110	452	127	2.5x	8.7x
	Constant Contact	748	0	114	634	185	12	3.4x	52.0x
	Marchex Inc.	288	0	40	248	103	(3)	2.4x	n/m
							MEAN	2.5x	15.2x
Online B2B Content	Forrester Research	748	0	231	518	257	35	2.0x	14.8x
	Gartner Inc.	3,920	259	109	4,070	1,320	198	3.1x	20.6x
	TechTarget	285	0	44	241	97	11	2.5x	21.0x
	comScore Inc.	826	12	41	796	192	14	4.2x	56.6x
	TheStreet.com Inc.	98	0	52	46	58	(5)	0.8x	n/m
	WebMediaBrands Inc.	50	6	11	45	9	(4)	4.8x	n/m
							MEAN	2.5x	18.8x
Diversified Media	CBS	19,050	5,990	972	24,068	14,040	2,680	1.7x	9.0x
	Comcast Corp	70,100	40,430	1,900	108,630	40,860	15,160	2.7x	7.2x
	Entravision Communications	157	396	66	488	201	64	2.4x	7.6x
	Gannett Co., Inc.	3,440	2,190	142	5,488	5,390	1,230	1.0x	4.5x
	HSN, Inc.	1,930	309	344	1,895	3,040	224	0.6x	8.5x
	McGraw-Hill	12,770	1,200	1,300	12,670	6,260	1,610	2.0x	7.9x
	Media General	88	663	19	733	668	114	1.1x	6.4x
	New York Times	1,280	999	352	1,926	2,370	362	0.8x	5.3x
	NewsCorp	46,490	15,490	11,780	50,200	32,550	6,190	1.5x	8.1x
	Time Warner	38,950	16,560	3,030	52,480	27,250	6,340	1.9x	8.3x
	Washington Post	3,320	400	711	3,009	4,650	804	0.6x	3.7x
	Discovery Communications	16,710	3,610	529	19,791	3,860	1,590	5.1x	12.4x
								MEAN	1.5x
							OVERALL MEAN	2.5x	14.2x
							OVERALL MEDIAN	2.0x	10.8x

Companies in grey removed from mean. Stock Prices as of June 30, 2011. Sources: CapitalIQ; Company SEC Filings.