

“The Changing World of Infomediaries”

by Margaret Johns and Chris Lamb

Reader,

This is the fourteenth edition of BlueLake Partners' Newsletter – ***The Perspective from BlueLake***. The Newsletter is published periodically and focuses on and analyzes trends in the technology industry. We hope you find it informative and thought provoking, and we welcome any suggestions or thoughts you might have on the content. Please feel free to pass it along to others that you think might find it interesting.

Sincerely,

BlueLake Partners, LLC

In the past, the constraint of information was a natural by-product of the costs of information distribution. This is no longer the case: disruptive change enabled by the internet is decimating the barriers to entry. The spread, the pervasiveness and indeed the ubiquity of information is not news. What is significant is the on-going shift in whole markets. In this tectonic shift, there are major winners and major losers.

Information is the lubricant of commerce, and the proliferation of information is changing the dynamics of commerce. The traditional information brokers who remain hidebound are headed down a slippery slope. In days of yore, information intermediaries, what we call infomediaries—newspapers, travel agents, stockbrokers, and realtors to name a few—dominated and impeded the competitive flow of information, offering little choice and garnering huge markups. Indeed, the cost of information distribution itself had been a significant barrier to entry. These companies could more accurately be described as “Information Delivery-Mediaries.”

The advent of the internet, broadband and their secondary and tertiary effects have totally changed entire industries, including news, real estate brokerage, travel and financial services to name a few. First, let's look at the news industry in detail to illustrate the point.

News Industry

Retail infomediaries include the print media and broadcast media. Newspapers are a particularly interesting case because they often created monopolies or duopolies on both ends. They charged

subscribers for access to valuable news and they charged business advertisers for access to valuable subscribers.

Imagine owning a monopoly that effectively controls all of the information flow to a local community and where both the people who provide the information and those who consume it have no choice but to pay ever escalating prices. No wonder Warren Buffet invested in so many newspapers.

But now the old game is over—or at least changed. Even Buffett has turned bearish, as noted in a May 2004 *Money* interview with him and Charlie Munger:

Buffett and Munger were surprisingly bearish on newspapers, a major investment for Berkshire through its large stake in the Washington Post Co. and its outright ownership of the Buffalo News.

After saying that he and Munger are "newspaper addicts" and that "it's still an unusually good business," Buffett struck a somber note. "The economics of newspapers are very, very close to certain to deteriorate over the next 10-20 years," he warned. "I see nothing that will turn around the erosion from both the circulation and advertising standpoints."

Revenues are collapsing in the print industry, particularly newspapers. The Tribune Company (NYSE: TRB) is experiencing severe shareholder dissatisfaction, with the Times Mirror contingent wanting to see the company broken into its parts and sold. In two years the Tribune Company, owner of major newspaper, radio and television stations, has seen its per share stock price fall by forty-eight percent from 52 to 27, over a \$6 billion decrease in market capitalization. The stock price has since recovered to 32 with the ongoing shareholder dispute. The Tribune Company has been experiencing revenue degradation of up to 3 percent per **month**.

Other newspaper chains are consolidating in a maniacal rearrangement of deckchairs on the Titanic. From September 1993 through December 2004, the Journal Register Company (NYSE: JRC) completed thirty acquisitions, including four in 2004 alone. Still their stock price has deteriorated from 19 to 9 per share over the past year. Consolidation and clustering is an inevitable by-product of the market atrophy in our midst. However, all is not automatically lost for the Journal Register and their ilk. These companies will survive, though in a diminished state, as print will not disappear. Indeed, those companies fleet of foot are expanding their online offerings—but also facing the brutal



economics of this disruption: lower advertising revenues and lack of subscriber stickiness.

In the meantime the highflying internet industry has soared, including Yahoo! (NasdaqGS: YHOO), Google (NasdaqGS: GOOG), and eBay (NasdaqGS: EBAY), all of which compete with traditional media for revenues. The irony is that these companies, for the most part, don't want to own content. They want to be the middlemen.

The new internet companies' market capitalization dwarfs their traditional information counterparts. Table 1 compares the market capitalizations and revenues of these two sectors.



(as of Jun-30-06)	Market Cap	Sales	Market Cap to Sales
<i>Internet-related</i>			
Yahoo!	\$ 45,490	\$ 5,650	8.05
Google	\$127,090	\$ 7,140	17.80
eBay	\$ 41,300	\$ 4,910	8.41
<i>Trad'l Print</i>			
Tribune Co	\$ 9,810	\$ 5,580	1.76
NY Times	\$ 3,550	\$ 3,400	1.04
Journal Register	\$ 355	\$ 554	0.64
\$ millions			

Table 1. Market Capitalization and Revenues of Internet Darlings and Print Media

When a company's P/E is 30 to 50, dilution is less of a concern and strategic acquisitions are important tools to maintaining market position in an extremely fast-moving industry: a classic case of "the rich get richer and the poor get poorer."

The traditional print industry has no way of fighting back. There is absolutely no way they could acquire company after company for millions and billions of dollars and not suffer huge shareholder dilution. Furthermore, they don't have the base business to gain immediate synergies and revenue from these acquisitions.

eBay is a textbook example of a company that has adopted a policy of making numerous strategic acquisitions to maintain their competitive edge. Time to market means everything to these companies, and they are not shy about making acquisitions to acquire the technology capabilities, geography and new markets they want rather than taking the "greenfield" approach. And eBay is willing to pay up for a company. Witness the acquisition of Skype for \$2.6 billion.

In June 2005 eBay purchased comparison-shopping site Shopping.com for \$620 million in cash. In May 2005, eBay announced the purchase of London-based Gumtree.com and Loquo.com, based in Barcelona, Spain. eBay purchased 25 percent of Craigslist in 2004. This is an investment that would have been a natural for *The New York Times* or *The Tribune Companies*. While not disclosed, eBay's purchase of 25 percent of Craigslist is rumored to be between \$12 and \$13 million for a company with revenues of seven to 10 million dollars at the time.

In July 8, 2002, eBay acquired all of the outstanding shares of PayPal in a tax-free, stock-for-stock transaction using a fixed exchange ratio of 0.39 of an eBay share for each PayPal share. Based on eBay's average closing stock price over the period two days before and after the acquisition was announced, the transaction is valued at approximately \$15 billion. In May 1999, eBay purchased Billpoint, Inc. which facilitates person-to-person credit card payment over the Internet, as well as Kruse International, an auctioneer of collector cars worldwide, in a \$275 million stock deal.

Table 2 details the numerous acquisitions eBay has made. Since 1999 eBay has made over 23 acquisitions.

eBay Acquisitions			
(\$ millions)			
Skype Technologies SA	\$2,600	Sep 2005	VOIP
Shopping.com	\$620	Jun 2005	eCommerce
Gumtree.com	NA	May 2005	eCommerce, UK
Loquo.com	NA	May 2005	eCommerce, Spain
Kurant	NA	Jan 2005	eBusiness software
Rent.com	\$415	Dec2004	On-line apt. rentals
Verisign Payment Gateway	\$370	Oct 2005	Internet communications software
Marktplaats nl	\$291	Nov 2004	eCommerce info services
Criagslist (25% interest)	Approx \$12-13	Aug 2004	Online classifieds advertising
Internet Auction Co Ltd	\$326	Aug 2004	Internet auction services
Baazee.com	\$50	Jun 2004	India eCommerce
Mobile de GmbH	\$161	Jan 2004	Online classifieds
EachNet.com	\$150	Jun 2003	Chinese eCommerce
FairMarket	\$5	Jun 2003	Internet auction services
PayPal	\$1,500	2002	On-line payment services
MercadoLibre (19.5% ownership)	NA	2001	Leading Latin America on-line auction house
HomesDirect	NA	2001	Auctioneer of foreclosed property
iBazaar	NA	2001	French on-line auction house
Internet Auction Co	NA	2000	Korean on-line auction house
Half.com	NA	2000	On-line community
AutoTrader.com	NA	2000	Minority investment
eBay Japan	NA	2000	JV with NEC
Butterfield & Butterfield	NA	1999	Upscale auction house
Alando	NA	1999	German on-line auction house
BillPoint	NA	1999	On-line bill payment

Table 2. Selected eBay Acquisitions



Yahoo! also gets it, though with a different focus. Yahoo! is not shy either. Their major acquisitions have included GeoCities (May 1999 for \$3.6 billion), Broadcast.com (July 1999 for \$5.7 billion) and Overture (October 2003 for \$1.63 billion). Yahoo! is also making 'strategic investments' in companies such as Alibaba (\$1 billion) and Gmarket (10% interest in Korean search engine). In all, since 1997 Yahoo! has made 29 acquisitions. Yahoo! also acquires for geographic reach and capability, though much different capabilities than eBay. It's a big wide world out there in internet-land:



Yahoo! Acquisitions			
(\$ millions)			
Gmarket	NA	Jun 2006	10% of Korean eCommerce site
Seven Networks	NA	Dec 2005	Cos. combine Australia & New Zealand online IPTV and mobile networks
Del.icio.us	NA	Dec2005	Search engine social tagging
Upcoming.org	NA	Oct 2005	Online event planning
WhereOnEarth	NA	Oct 2005	Geographical location based info
Alibaba	1,000	Aug 2005	40% interest in China eCommerce site
Pixoria	NA	Jul 2005	Desktop widget S/W
Bl.ogs	NA	Jun 2005	Blog directory
Dialpad Comm	NA	Jun 2005	VOIP
TeRespondo	NA	Apr 2005	Brazilian PPC search network
Stadeon, Inc.	NA	Mar 2005	Multiplayer, multigame functionality
Ludicorp R&D (Flickr)	40	Mar 2005	On-line search, share, sort and storage of photos
WUH Networks	NA	Nov 2004	S/W developer
Stata Labs	NA	Oct 2004	Email services
MusicMatch	157	Oct2004	Music S/W devel.
Oddpost	NA	Jul 2004	Email and RSS aggregation
FareChase	NA	Jul 2004	On-line travel search engine
Kelkoo	576	Apr 2004	eCommerce
3721 Network S/W	74	Jan 2004	Search engine
Overture Services	1,599	Oct 2003	Search engine

Table 3. Selected Yahoo! Acquisitions

In contrast, unfortunately, the print media folks can not afford to make these sorts of aggressive acquisitions. They are caught in a "Catch 22". To make any acquisition to update their capability, the shareholders would be severely diluted. In addition, it is doubtful that any of the traditional print media companies would have the ability to manage a Web 2.0 enterprise.

These traditional companies are making an effort. The Tribune Companies invested in CareerBuilder (2002) and Topix.net (2005) with Knight Ridder and the Gannett Companies. In May it acquired ForSaleByOwner.com. In May 2005, The New York Times acquired About.com for \$410 million. All of which helps, but is more of a band-aid.

Our own opinion is that in today's world an inversion is called for: the traditional media companies should be owned by the Web 2.0 companies. However, ironically, the Web 2.0 companies do not want to own content, and do not desire to be mired in old technology. Currently, the shareholders of The Tribune Company are seeking to 'maximize shareholder value,' code for dividing the company and selling off its various pieces. Who knows, the Sulzbergers and other shareholders of the New York Times may not be not far behind. Only time will tell, however there is no obvious solution in sight for these companies given the cultures, organizations, shareholders and valuation constraints.

The question is could the print media guys have been more proactive and altered their plight, and more importantly, are there changes occurring in your industry, internet related or otherwise, that you should be dealing with now?

About Chris Lamb

Chris Lamb focuses on corporate development, the commercialization of technologies, and works with companies who need to disrupt their business culture to meet evolving market demands. Mr. Lamb's has worked most recently with companies in the information services and communications industries. Mr. Lamb is a graduate of Swarthmore College. He can be reached at chris.h.lamb@gmail.com.

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