

May 2008

**When complexity overwhelms, simplicity becomes a value**

In a recent Radiolnk article, a series of blog excerpts were catalogued to highlight the range of attacks on traditional radio. These comments were of the doubt-stirring variety, such as “don’t believe radio salespeople for a minute”, and “they skip client’s ads on a regular basis”, and “broadcast is too expensive for most...” On the same day, Silicon Alley Insider published the results of a recent survey concluding that, despite much passionate debate regarding the merits and importance of DRM (or lack thereof), and the eventual concession by music labels to offer their titles DRM free, consumers in actuality do not care one way or the other. Reading through this and similar commentary that underscores uncertainty and fragile credibility in the media environment, one is reminded of those aspects of 20th century philosophy which point to the angst suffered by existential man in the face of crumbling values in an uncertain universe. As traditional values fall apart, so it goes – such as in the case of media, advertising models redefined by new modes of distribution, consumer offerings plagued by free content availability – and when one can no longer rely on the framework and parameters that one had been taught to accept, a form of anxiety sets in, which we may now be seeing in the media deal markets. Such a state is beyond the confusion that may be easily remedied by cyclical recalculation, but a more profound concern that old rules no longer apply and that new rules have not yet been established. Until such new rules and answers crystallize, any manifestation of simplicity and a pure phenomenon amidst chaos emerges as a welcome relief. To illustrate, we point to three volatile or crumbling transactions that may come to symbolize the deal market anxiety in environment described, and by way of contrast we highlight one unlikely success story, notable in the simplicity of its offering, that demonstrates the characteristics which investors now seem to prize.

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- What better example to illustrate sector confusion than recent events at YHOO? Here we have the world’s most dominant software company (MSFT) seeing its long term prospects threatened by the world’s most dominant search engine (GOOG) and the world’s leading popular entertainment vendor (APPL), deciding as a result to try to acquire a platform that is both search engine and popular entertainment resource, though not particularly dominant in

either. When Yahoo! balks at the grand pursuer's best offer, buyer's remorse causes the bidder to walk away. The target, now rejected (and dejected) and threatened by shareholder uprising, investigates an alliance with the aforementioned search engine, the outcome of which is really anyone's guess, while the original grand pursuer is entertaining thoughts of a more selective pursuit, focusing on particular pieces of the target (and possibly just through a strategic alliance) rather than an acquisition of the whole... although specifics are fuzzy. At some point in the future, this may become a case study about unclear vision of both target and acquirer. We note that the result so far is (necessarily) characterized by delay and lack of clarity.

- Speaking of delay and lack of clarity, what's another six months when we've waited this long for the consummation of our favorite radio buy-out (CCU)? Although the litigious dispute with banks that stalled the deal's completion last month has been settled, this was by way of the private equity sponsors' consent to reduce the original offer price (some give!). It remains to be seen if the selling shareholders will approve these new terms come fall, but judging by the sigh of relief upon the settlement's announcement (the stage having been set by the panic of non-resolution at Yahoo!), a positive outcome is likely. As the target's core radio business has been flat at best since the original buyout announcement (and is showing no sign of revival), and given the unprecedented credit market disruptions concurrently, it may strike some as odd that a roomful of lawyers was required to reset deal valuation. Alas, such is the state of our current confusion.
- Although XM and Sirius thought they had a lock on regulatory uncertainty, in no small part due to fragile sector dynamics described herein, here comes BCE to prove that even when sector dynamics is not an issue, regulators will find new and creative ways to stir up trouble. As a result of BCE bondholder complaints, the Quebec Court of Appeal ruled to block the transaction as unfair to that particular group of stakeholders. Corporate directors, thus, must act in the interest of groups extending well beyond the owners who appointed them. The complexity of the debate is staggering, and one has to wonder where if at all the line is to be drawn. One also wonders if here too the net result will be a lower

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valuation that will ironically be met with celebration by sellers.

While the highlighted transactions are thus in various stages of disarray, redefinition, or collapse, we are bound to look twice when a highly positive deal outcome occurs, and our eyes may even open wider when this turns out to be a company with (a) no revenues, (b) an undefined business model, and (c) a technical platform that is almost as renowned for the frequency of its downtime as it is for its two or three features. Twitter, the popular web messaging service, is reported to have raised additional growth capital, in what was rumored to be a competitive auction environment, at a valuation of somewhere between \$80-100 million, depending on the rumor and the pre- vs. post-money assumption.

Relative deal size aside, what does Twitter have that is eluding Yahoo! and others? In the context of a deal market as precarious and chaotic as the one described, here is an initial itemization of what we see as Twitter's edge:

- The company has a clear purpose and focus.
- Its worldwide popularity is growing by leaps and bounds, among individual as well as enterprise users.
- As already alluded, the product is almost eerily simple.
- Twitter's capital structure does not take appellate judges and astrophysicists to interpret.

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In short, at a time when circumstances conspire to make deals difficult, the deal market may be seeking out simplicity. When questions about the long term value of Windows, the direction of Apple, the possibilities of Google, the relevance of DRM, the value proposition of terrestrial radio, the limits of Internet radio, are prone to give some dealmakers headaches that keep them from focusing properly on leverage covenants, MAC clauses, activist shareholders, and the responsibilities of corporate boards, it must be comforting to some of them to find a transaction in which the only real due diligence focus is audience measurement. Twitter's entire product line is based on the answer to one straight-forward question: "What are you doing?" Although each of its millions of users has a different answer, there must be a way for Yahoo! and others to at least move towards the general direction of Twitter's elemental and basic purity.



## **SPECIALISTS IN SATELLITE, MEDIA AND TELECOM INVESTMENT BANKING**

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