

What's A Web Site Worth?

VALUATION METRICS FOR LOCAL WEB SITES

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EXECUTIVE SUMMARY

The oldest newspaper, radio, TV and “city.com” Web sites turned 14 years old this year. In that short time span they have evolved from being interesting experiments to become their parent organizations’ center of attention and financial saviors. Some of them now generate millions in revenue and significant profits, and have high potential for continued growth – begging the question of just how much these local Web sites might be worth.

As traditional media companies increasingly find themselves on or headed for the trading block, the need to place a separate value on these Web operations – at a far greater multiple of revenue or profits than their parent properties – is growing. And what about the independent city.com sites such as Atlanta.com, LosAngeles.com or Toledo.com? Could these brash upstarts be creating value that might one day challenge their more mature media brethren?

BIA Financial Network has teamed up with Borrell Associates to analyze local Web site revenues, expenses and growth trends in an attempt to answer these questions. What emerged was another strong indication of the fundamental changes taking place in the media industry: local Web sites generate important value for their owners, especially for owners that have positioned their sites for growth in key high-demand advertising categories such as e-mail, streaming video and paid search. Some of these local Web sites are worth between \$300 million and \$450 million, and even small sites are seeing values in the low millions of dollars.

Not all local sites are created equal. Newspaper-owned Web sites tend to have the highest revenues, but their valuations are constrained because their growth rates have slowed and they are selling mainly banners and listings – relatively slow-growth advertising categories. TV, radio and local pure-play sites tend to have higher multiples associated with their valuations because they are better positioned for future growth.

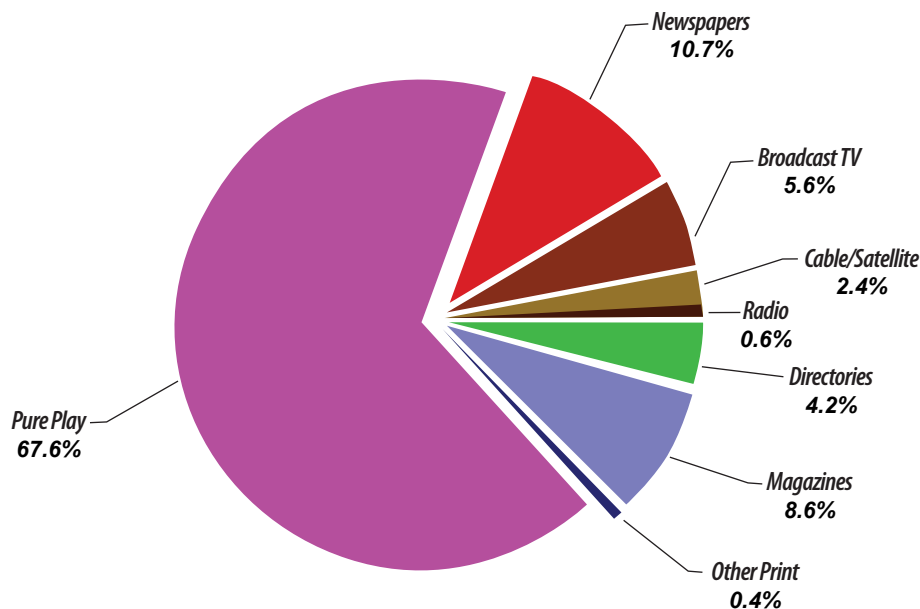
1: GROWTH & DECLINE IN LOCAL INTERACTIVE AD SALES

The weakness in total US ad spending in recent years has not been shared equally among media types. Newspapers and, to a lesser extent, broadcast television and radio have been hit hardest. This subpar performance has been offset by a nearly equal gain by interactive media. The next five years are likely to see continued migration of ad spending away from traditional media and toward more targeted, measurable forms of advertising – particularly cable and interactive.

Beginning with newspapers in the mid-1990s, traditional media companies have been developing Web sites to participate in the growth of interactive ad revenues as well as to support and protect their core properties. Newspapers saw the threat and the opportunity of the Internet when it was confined to text and static pictures; radio and television stations are taking it seriously now that it offers streaming audio and video – although they remain two to three years behind newspapers in terms of revenue development.

As the advertising potential of the Web emerged, national companies, leveraging their marketing departments and technical staffs, were the first to invest. They tended to favor “pure-plays” – sites that sell online advertising but are not affiliated with traditional media companies – because these companies could provide national online reach with a single buy. Pure-plays include companies such as AOL, MSN, Google, Yahoo and Monster, as well as vertical directories (“FindADentist.com”), geo-domains (“CityName.com”), and many others. Figure 1 shows the distribution of total online advertising revenues across the different types of Web sites.

FIGURE 1 Shares of Total Online Advertising Revenues, 2008

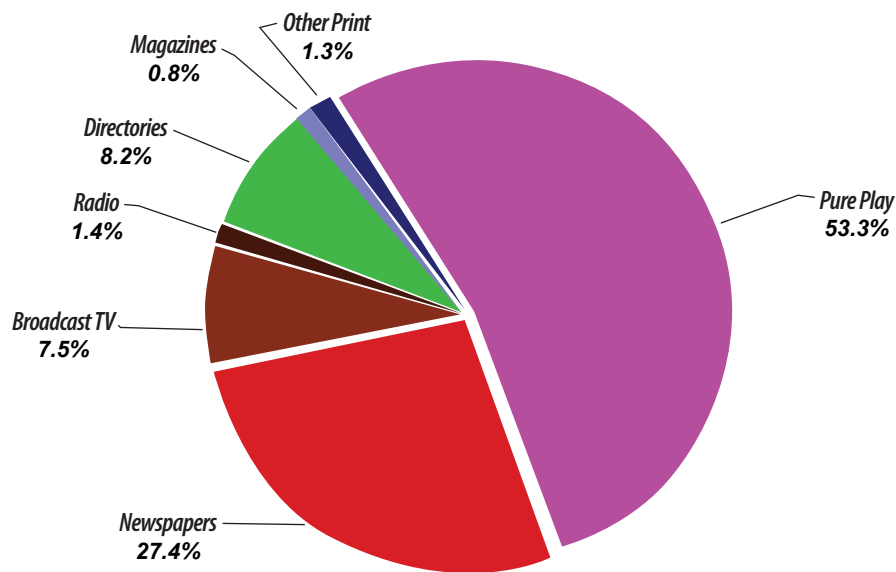


Source: 2008 Borrell Associates Inc.

1: GROWTH & DECLINE IN LOCAL INTERACTIVE AD SALES

When the view is limited to spending by local¹ advertisers, pure-play companies are not as dominant. Local media company sites have been more effective at reaching local advertisers than the national pure-plays have for two related reasons: existing client relationships and “feet on the street.” Media company sites have leveraged their existing advertiser relationships by “up-selling” an online component to existing print or broadcast clients. These cross-media or convergence packages might include a radio commercial that is also streamed online for an additional fee, a newspaper print classified that also appears online, or a weather-page banner that ties in with an on-air commercial. Figure 2 shows the distribution of local online advertising revenues.

FIGURE 2 Shares of Local Online Advertising Revenues, 2008



Source: 2008 Borrell Associates Inc.

The relative sizes of the slices shown in Figure 2 have changed dramatically in the past four years. Pure-plays have gained nearly 30 points of local online ad revenue share since 2004 as traditional media – mainly newspapers and directories – have saturated their customer bases and generally failed to reach out to potential new customers via Web-only sales.

The growth in national online ad spending has slowed as the Internet finds its place in the mix of media employed by larger companies. Local advertisers are now providing much of the growth in online advertising as they become more comfortable with the technologies and learn to employ the proliferating number of advertising tools and techniques aimed at them.

¹ In this report, we use Borrell Associates' definition of “local” advertisers: businesses that have a physical presence (a store) within one of the 210 Designated Market Areas (DMAs) in the U.S. and are advertising online to reach consumers and businesses that are also located within that same DMA



1: GROWTH & DECLINE IN LOCAL INTERACTIVE AD SALES

Online operations are generating a relatively small but growing portion of media company revenues (see Figure 3). For newspaper companies, revenues from digital operations averaged 6.5 percent of total income last year and are projected to grow to 10 percent by 2011. Radio and TV companies are generating approximately 3 percent of total gross revenues from digital sales, projected to grow from 5 percent to 6 percent of sales by 2011.

FIGURE 3 Local Media Companies' Percent of Gross Revenues from Online Operations

Company	2007 Actual/Est.	2008 Projection	2009 Forecast	2011 Forecast
At & T Yellow Pages	10.7%	15.2%	20.3%	24.2%
Yellow Pages Group (Canada)	10.5%	15.6%	20.2%	22.1%
Yellow Book USA	10.0%	16.7%	23.3%	28.8%
White Directories	10.0%	15.6%	20.2%	22.2%
Idearc (Yellow Pages)	9.1%	12.9%	16.6%	18.3%
Morris Communications (Newspapers)	8.9%	10.7%	11.2%	12.0%
New York Times Co. (Newspapers)	7.3%	8.8%	11.0%	12.3%
McClatchy (Newspapers)	7.3%	8.8%	10.0%	11.6%
Belo Corp. (Newspapers)	7.0%	8.4%	10.5%	13.6%
Tribune Co. (Newspapers)	6.9%	8.3%	10.3%	12.4%
Scripps (Newspapers)	6.0%	7.2%	8.9%	9.7%
Gannett (Newspapers)	5.9%	7.0%	8.8%	9.6%
R.H. Donnelley (Yellow Pages)	5.0%	7.5%	10.1%	11.7%
Journal Communications (Newspapers only)	5.0%	6.0%	7.6%	9.2%
Lee Enterprises (Newspapers)	5.0%	6.0%	7.5%	8.7%
Torstar (Canadian Newspapers)	4.5%	5.4%	6.8%	8.8%
Private Co. (Newspapers)	4.5%	5.4%	6.3%	8.0%
Private Co. (Newspapers)	4.0%	4.7%	5.9%	6.7%
Journal Register (Newspapers)	3.9%	4.7%	5.8%	7.0%
Media General (Newspapers & TV)	3.9%	4.9%	6.1%	8.0%
Emmis Broadcasting (Radio only)	3.7%	4.7%	5.9%	6.6%
Radio Group (multiple clusters)	2.7%	3.5%	4.4%	5.7%
Belo Corp. (TV)	3.7%	4.5%	5.6%	6.6%
Gannett (TV stations)	3.3%	4.0%	5.0%	6.3%
LIN Television (TV)	3.2%	4.0%	5.0%	6.5%
Gray Television	3.1%	3.9%	4.9%	6.0%
Hearst-Argyle (TV)	2.8%	3.8%	5.0%	6.4%
Nexstar Television	1.9%	2.9%	4.6%	6.5%
Private Co. (TV & Radio only)	1.8%	2.8%	3.4%	4.5%
Journal Communications (TV & Radio only)	1.3%	2.0%	2.5%	3.2%
Trilpe Crown Media (Newspapers)	1.0%	1.3%	1.6%	2.1%

Source: SEC Documents, company statements, and Borrell Associates estimates. July 2008

2008 Borrell Associates Inc.



1: GROWTH & DECLINE IN LOCAL INTERACTIVE AD SALES

As this trend continues – due to declines in parent company revenue as well as increases in online income – the need to estimate the value of Web sites will multiply; stockholders, lenders, buyers, managers and unions will all have a stake in the results.

This paper first examines an income approach to valuation. Drawing on seven years of local media company Web operating results compiled by Borrell Associates and the valuation experience of BIAfn, we develop models to determine the values of these interactive operations in terms of multiples – multiples of existing revenues and cash flows. We use the Borrell database to suggest the values of four types of sites – those associated with newspapers, radio stations and television stations, and those that are pure-plays. We then compare these estimated values with market data on publicly traded Web companies. From that modeling and comparison with public company data we develop ranges of metrics that will help determine the value of existing sites. We conclude with a discussion of some of the factors unique to Web operations that can have an impact on the future earnings of a site, and the outlook for these values in the future.

Figure 4 shows a summary of the Borrell annual survey results for local Web site revenue growth in the 2002-2008 period for sites operated by different types of entities, along with their compound annual growth rate (CAGR). (Note: 2008 revenues are forecasts, and “Local Radio” is based on only six years of data. See Appendix 1 for a full description of the Borrell annual survey.)

The table shows that among local media sites, those run by newspapers generate the highest ad revenues, at an estimated \$3.7 billion, but local radio and TV sites have twice the growth rate. Newspaper online revenue growth is below overall local online spending growth. Also, the rate of growth in newspaper online ad revenue is declining. This is due to newspaper Web sites’ reliance on display and classified ad categories, which face declining spending as we will discuss below. Different types of interactive advertising have different growth rates, so the sales strategies of local media sites become increasingly critical to the future valuations of these companies.

FIGURE 4 Revenue Growth by Web Site Type

Local Web Site Type	Revenue (\$ billions)							CAGR
	2002	2003	2004	2005	2006	2007	2008	
Total Local Online	\$1.70	\$2.10	\$2.70	\$4.80	\$5.70	\$8.70	\$13.10	40.5%
Newspaper	\$0.67	\$0.81	\$1.20	\$2.00	\$2.60	\$3.10	\$3.70	33.5%
Television	\$0.06	\$0.08	\$0.12	\$0.12	\$0.45	\$0.77	\$1.20	67.2%
Radio	N/A	\$0.02	\$0.03	\$0.06	\$0.12	\$0.19	\$0.26	69.9%

Source: Borrell Associates Inc.



2: THE INCOME APPROACH TO DISCOUNTED CASH FLOW ANALYSIS

In order to determine the value of these Web sites as of August 2008, we first utilize the income approach, to estimating their revenues, expenses and resulting cash flow over a projection period of approximately 7½ years, which allows us to account for changes in revenues and expenses in the near future. Those cash flows are discounted to present values and added to a “terminal value” corresponding to the present value of cash flows after the 7-1/2 year period, which will have settled to a consistent growth rate.

PROJECTIONS OF WEB SITE REVENUES

The Borrell database of site revenues and expenses was used to estimate revenues generated by these different types of Web sites . We analyzed the database to determine the 2007 quartile revenues and expenses for the different types of sites. Those revenues are assumed to continue to grow at specified annual rates based on BIAfn² and Borrell estimates. In future years, we forecast these revenues to rise throughout our projection period, but at a slightly slower rate than the dramatic rates experienced in recent years. Major reasons for the decrease in growth rates for individual Web sites include:

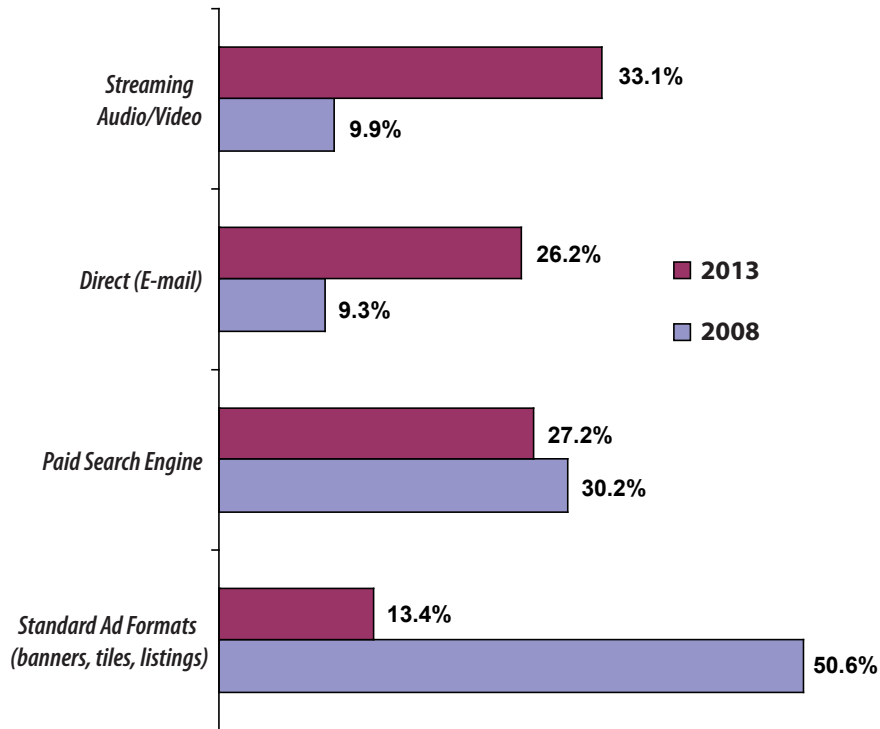
- The increased number of competing local, advertising-supported sites.
- The increasing sophistication of national pure-play sites such as Google, Yahoo, Local.com and others in capturing local online ad revenue.
- The tendency for formerly local advertisers to become national advertisers as the Web expands their horizons.

In forecasting these revenues, we took into consideration the relative shares of different types of interactive advertising to account for their varying rates of growth. Figure 5 compares the composition of interactive advertising in 2008 with that forecast for 2013. Each Web site has its own advertising revenue structure and, depending on its make-up, its terminal valuation can be impacted substantially.

² BIAfn worked from summaries of the Borrell Associates database that were prepared by Borrell to preserve the validity of the data without permitting BIAfn to identify any individual property's operating results.

2: THE INCOME APPROACH TO DISCOUNTED CASH FLOW ANALYSIS

FIGURE 5 Revenue Shares of Interactive Ad Formats, 2008 vs. 2013



Source: Borrell Associates Inc.

The biggest change illustrated in Figure 5 is the decline in the share of spending on standard-format ads – banners, pop-ups, tiles and classified listings – which comprise 50.6 percent of all local online spending in 2008 and only 13.4 percent in 2013. We expect substantial increases in the shares captured by local e-mail marketing and streaming audio/video ads (particularly long-form, opt-in video), which will grow from a combined 19 percent share of the online ad market in 2008 to more than 59 percent in 2013. These trends impact the perpetuity valuation of interactive properties. Sites relying primarily on banners and classified listings can expect flat to declining ad revenues and, therefore, diminished valuations. On the other hand, sites that focus on ad formats with high growth projections – search, e-mail, audio/video – will see much higher valuations.

PROJECTION OF OPERATING EXPENSES AND CASH FLOW

The Borrell database also enables us to estimate operating expenses for sites in markets of various sizes. Many of these newspaper, television and radio station sites utilize resources from their parent properties, keeping the costs associated with the site at artificially low levels. Expenses such as rent, content fees and promotion are either not accounted for or are included at steeply discounted rates.



2: THE INCOME APPROACH TO DISCOUNTED CASH FLOW ANALYSIS

Borrell has found, however, that media Web sites making more than \$5 million in revenue – which, in theory, are more likely to institute stricter accounting practices on their expenses – were just as likely to report high margins as were sites with lower revenues.

In order to continue growing at strong rates, media company sites will have to continue to add more content originators and sales staffs. Cash flow, already substantial at many of these Web sites, is projected to continue to grow at moderate rates.

NET FREE CASH FLOWS

Operating net free cash flows are computed based on operating profit projections, adjusted for capital expenditures and the tax effects of depreciation/amortization. Capital expenditures are forecast to be very minimal, starting out at around \$10,000 per year and growing annually over the projection term by the rate of inflation. Operating cash flows were also adjusted to reflect additions to working capital, based on appropriate published research.³ The resulting projected net free cash flows are then restated to their present values as of August 1, 2008 using a discount rate of 10.6 percent.⁴

TERMINAL VALUE-GOING CONCERN

The other major component of value is the value of the cash flows that will be generated beyond the forecast horizon. Using the *Constant Cash Flow Growth Model*,⁵ the final year of the projection period estimates net free cash flows to grow at an assumed compound annual growth rate into perpetuity. (Others refer to this value as the amount that the site could be sold at that point in the future.)

The present value of all cash flows accruing beyond the projection period, as of August 2008, is then added to the cumulative discounted cash flows accrued between the valuation date and the end of the projection period, and the result is the final value of the site.

³ Data on working capital for Web sites are not yet available, so we use working capital data for television stations as a proxy. According to Risk Management Association's Annual Statement Studies, 2003-2007 editions, the typical television station has a ratio of sales to working capital of 10.6 on average over the last five years. In other words, on average, approximately 9.4% (the reciprocal of 10.6) of a typical television station's sales is allocated to working capital. As a result, we have allowed for working capital in the amount of 9.4% of the Web site's incremental net revenues for each year of the projection period.

⁴ See Appendix 2 for the determination of the discount rate.

⁵ Bradford Cornell, *Corporate Valuation*, pp. 146-148.



3: AVERAGE REVENUES, EXPENSES AND CASH FLOWS FOR WEB SITES

Local newspapers were the first traditional media companies to devote significant efforts to develop and market their Web sites. As a result, these sites generate substantially higher revenues than sites associated with television and radio stations and independent pure-play Web sites.⁶

Web sites associated with local television stations have seen substantial revenue increases in the past three years.⁷ Additionally, given the resources available to local TV stations with already-produced news video clips available for their Web sites, and the apparent increased demand for this type of programming, the outlook for these Web sites is quite promising.

As a group, Web sites associated with local radio stations were the last of the traditional media Web sites to engage in online ad sales. Given their ability to promote in the local market, however, radio Web sites have been able to grow very quickly, albeit off a small base.

Local pure-play sites have also only recently begun to generate significant ad revenues. These sites, which are not affiliated with a traditional medium, typically shun traditional media categories such as news, weather and sports. Instead, they have focused on developing content of interest to local consumers and/or visitors to the local area (geo-domain "city.com" sites), or content that pertains to a narrow topic of interest across all geographies (e.g., Volkswagen Beetles). Some are becoming aggressive in lining up both advertising and e-commerce revenues.

Figure 6 summarizes the median values of revenues, expenses, cash flow and cash flow margins for the four media types of Web sites.

FIGURE 6 2007 Median Revenues, Expenses and Cash Flows for Web Sites (\$ in 000s)

Type of Site	Revenues	Expenses	Cash Flow Margin	Cash Flow
Newspaper	\$715	\$450	\$265	37.1%
Local Television	450	350	100	22.2%
Local Radio	165	140	25	15.2%
Pure-Play	300	250	50	16.7%

Source: Borrell Associates Inc., BIAfn

⁶ As shown before, according to the most recent Borrell Associates survey, Web sites associated with newspapers collectively garnered 27.4% of the local online advertising in 2008, Web sites associated with local television stations 7.7%, and pure-play sites 53.3%. Even though the pure-plays have a larger share, the vast number of these sites leads to a lower average value than those associated with local newspapers.

⁷ The Borrell Web site survey database includes many TV sites that experienced a 50 to 75 percent revenue increase in 2007 alone.



3: AVERAGE REVENUES, EXPENSES AND CASH FLOWS FOR WEB SITES

Sites associated with newspapers and television have higher cash flow margins, reflecting the cost savings mentioned earlier and the ability of these traditional media to cross-promote and sell ads on their sites. Much of the early revenue success for these sites has hinged on up-selling online packages to existing print or broadcast advertisers. As discussed later, these sites will have to expand their customer list beyond this core group if they are to continue to grow.

The cash flow margins for television and radio Web sites are generally lower than the corresponding values for newspaper-associated sites. As TV and radio Web sites grow revenues, their cash flow margins should approach those of the newspaper sites. Finally, while revenues of many of the pure-play sites are relatively low compared with local newspaper and television sites, their potential for strong growth remains high.⁸

⁸ In a limited group of pure-play Web sites, annual revenue increases for 2007 ranged from 15-75%.

4: REVENUE AND EXPENSE PROJECTIONS FOR WEB SITES

While newspapers developed their local Web sites early, the outlook for their immediate future is not as promising as it is for other local sites. Specifically, their reliance on revenue from classified and display advertising will continue to result in slower growth rates over the next few years than what they experienced a few years ago. Additionally, nearly one-third of their Web clients are local real estate companies and automobile dealerships, two categories of retailers that are cutting back their overall advertising outlays. As a result, we predict slower growth in newspaper site revenues for 2008 and subsequent years. Figure 7 shows the revenue performance of local media-affiliated Web sites for the past three years.

FIGURE 7 Annual Revenue Percentage Increases for Median Web Site by Type and Revenue range: 2005-2007

Type	2007 Revenues Range	△ '04-05	△ '05-06	△ '06-07
Newspaper	\$2.5 m+	36%	40%	23%
Newspaper	\$750k-\$2.5m	41%	33%	24%
Newspaper	\$200k-\$750k	31%	45%	30%
Newspaper	\$1-\$200k	17%	65%	33%
Radio	\$500k+	39%	42%	70%
Radio	\$150k-\$500k	0%	110%	93%
Radio	\$40k-\$150k	-37%	113%	192%
Radio	\$1k-\$40k	-76%	317%	95%
TV	\$800k+	49%	27%	29%
TV	\$400k-\$800k	80%	21%	47%
TV	\$200k-\$400k	88%	48%	34%
TV	\$1k-\$200k	-6%	28%	67%

Source: Borrell Associates Inc.,

Television and radio sites, along with local pure-plays, are experiencing strong growth in revenues, and stations are assigning more personnel for developing and marketing these digital assets. If these sites can control their addiction to up-sold revenue and make the necessary investments in diversifying their revenue base, they can continue to increase at high double-digit rates through 2008, with only slight slowing (in percentage terms) over the next few years.



4: REVENUE AND EXPENSE PROJECTIONS FOR WEB SITES

To sustain that growth, these broadcast and pure-play Web sites will have to continue to invest more in the content on these sites as well as in their selling efforts. We assume a strong increase in expense growth over the next few years, settling down to the growth in inflation in the last years of our projection term. Even though newspaper Web sites will see moderate growth in the coming years, they too will need to continue reinvesting, adding staff and other resources to maintain their growth. Consequently, we assume annual expense increases in the 3 percent to 10 percent range over the projection period – over and above any sales costs related to the increases in revenues.

With slower growth and continued expense increases, we expect only marginal increases in cash flow margins for newspaper Web sites – from the high 30 percent levels to the low 40 percent range, depending on the current revenue sizes of these Web sites. The cash flow margins for the other groups of Web sites – radio, television and pure-play – should increase to the high 40 percent range, also dependent upon site revenue.

5: WEB SITE VALUES

Given the preceding revenue and expense assumptions, Figure 8 shows the estimated values of the median Web sites in each category, using the income approach.⁹ In addition to the estimated values, metrics relating those values to these sites' 2008 estimated revenues and cash flows are also provided.

FIGURE 8 Median Web Site Valuation by Type

	Newspaper	Television	Radio	Pure-Play
Estimated Values (\$000s)	\$3,538	\$3,069	\$1,224	\$2,407
2008 Revenue Multiple	4.6	4.9	5.3	5.7
2008 Cash Flow Multiple	12.5	15.8	19.3	21.8

Source: Borrell Associates Inc., BIAfn

While Figure 8 presents the median values for these different types of Web sites, there is a wide range depending upon the length of time a site has been up and running, and the size of the market it serves. The median values for newspaper Web sites in different revenue brackets range from nearly \$500,000 to almost \$30 million; for TV sites \$500,000 to \$9 million; and for radio sites \$250,000 to nearly \$6 million.¹⁰

Values of the newspaper sites can be dramatically higher than those of the other traditional media Web sites and local pure-plays. This higher value is not surprising as these sites tend to generate higher revenues, on average. On the other hand, the multiples of the local TV and radio sites are higher than those of newspapers as the potential revenue growth of the broadcasters' sites is more promising. The local pure-play Web sites also have promising revenue growth in the next few years, though they do not benefit from the content, promotion and cross-selling synergies enjoyed by their media-affiliated competitors.

⁹ The values of these Web sites depend on their current revenues. In Appendix 3 we provide additional values corresponding to the median Web sites by type for different revenue ranges.

¹⁰ Unfortunately, the available data for local pure-play Web sites do not afford us the opportunity to analyze these sites across revenues of different sizes.



6: COMPARABLE WEB SITE VALUATIONS – PUBLICLY TRADED COMPANIES

In addition to the income approach for determining fair market values, market approaches are also commonly used. We can compare the metrics from our income analysis to similar metrics of publicly traded companies.

We have examined eight publicly traded media companies that are in the same or similar industries as the Web sites examined here. While some of these companies are not completely reliant on ad revenue, all have nearly half or more of their revenues generated by advertising sources, providing useful reference values for the Web sites examined in this report. Figure 9 lists these companies, their Aug. 1, 2008 total enterprise value (TEV), their most recent 12-months' (LTM) revenues and EBITDA,¹¹ and the corresponding multiples.

While many of these publicly traded companies are at higher scale than the local sites examined in this report, in terms of revenues, they indicate market valuations of Internet-based companies. The average and median values for the TEV divided by EBITDA for the public companies are very close to each other and are similar to many of the 2008 cash flow multiples found in our earlier analyses of the three different types of local Web sites.

FIGURE 9 Publicly Traded Internet Companies and Value Summaries (\$ millions)

Company Name	Market Cap	LTM Total Revenue	Total Enterprise Value	TEV/LTM Total Revenues	TEV/LTM EBITDA
InfoSpace Inc. (INSP)	\$138	\$147	\$115	1.8	23.9
Marchex Inc. (MCHX)	\$501	\$145	\$473	3.3	23.1
Local.com (LOCM)	\$46	\$30	\$36	1.2	N/A
The Knot Inc. (KNOT)	\$1,169	\$102	\$1,008	1.5	6.5
CNET Networks Inc. (CNET)	\$1,751	\$408	\$1,705	4.2	31.2
WebMD Health Corp. (WBMD)	\$1,695	\$354	\$1,370	3.9	19.1
TheStreet.com Inc. (TSCM)	\$206	\$75	\$125	1.7	7.9
Bankrate Inc. (RATE)	\$670	\$133	\$595	4.5	16.7
TechTarget Inc. (TTGT)	\$310	\$100	\$254	2.5	13.9
			Average	2.7	17.9
			Median	2.5	17.8

Source: SEC Documents and BIA

¹¹ While not identical to cash flow for the television and newspaper Web sites, Earnings Before Interest, Depreciation, and Amortization is very similar and is appropriate for the comparisons made here.



7: VALUE MAGNIFIERS FOR WEB SITES

Web sites associated with traditional media companies benefit from promotion and content cost synergies as well as opportunities to up-sell to existing customers. As a result, their cash flow margins are robust – in most cases much higher than their parents'. The sustainability of these margins depends on a site's ability to wean itself from up-sells and find new-to-the-enterprise advertisers.

Other factors that can affect a site's future ability to generate revenue – and therefore its ultimate value:

MARKET PENETRATION

A site's revenue potential depends in part on the extent to which it has penetrated the DMA or other collection of counties and/or ZIP codes that constitute the geography from which it draws most of its audience and advertisers. A thorough site valuation process should include examination of share metrics such as the ratio of the site's monthly unique visitors to the number of households in the market, and the ratio of the site's revenues to the local and total online ad spending in the site's market. A site that already attracts unique visitors equivalent to 1.7 times the number of households in its DMA and generates revenue equivalent to 60 percent of the market's local online total will have less "headroom" for audience and revenue growth than one with similar revenue but much lower audience and revenue penetration.

SALES ORGANIZATION

A key indicator of a site's ability to generate long-term revenue growth is the extent to which it employs sales staff that is focused on generating online-only revenue – that is, they are not focused on selling print or air time in conjunction with or in addition to online packages, but are free to pursue online ad revenue opportunities among prospects that have never done business with the legacy medium. A site that does not have online-only salespeople will eventually see its online revenues fail to keep up with the growth of online ad sales in its market, resulting in loss of share.

REVENUE SOURCES

As alluded to earlier in this report, some online ad formats will be growing much faster than others. A site that is set up to participate in those upcoming formats will do better than one that is not. For example, a valuation effort should examine the extent to which a site relies on Automotive, Real Estate and Recruitment advertising in comparison with other sites and with the local online ad market as a whole, or the extent to which it can offer ad formats in video, e-mail and search.

MEDIA LEVERAGE

Media-affiliated sites typically do not fully account for the value of the content acquisition and brand promotion that their parent companies provide, which leads to overstated valuations. A media-affiliated site would have considerably less value to an owner that was forced to pay retail rates for content and promotion. Sites that are owned by traditional media companies receive traffic that is referred to them by other sites in the parent company's portfolio; plus, the in-bound links from those sites enhance the site's search engine rankings.



7: VALUE MAGNIFIERS FOR WEB SITES

PERFORMANCE BENCHMARKING

A given site can be compared with others on several performance dimensions to help validate revenue multiples and projections. For example, monetization efficiency can be measured by computing a site's revenue per unique visitor, revenue per page view and revenue per market household, and comparing them with the performance of sites that generate similar revenues or are in similar-sized markets.

URL VALUATION

A site's URL can have intrinsic value because of its ability to attract traffic without the cost of active promotion. Some sites capitalize on the tendency of people to turn common names into URLs simply by adding ".com" to them – so-called "intuitive" URLs. Sites such as Daytona.com and Bellevue.com sold this year for approximately \$150,000, even though they currently generate little to no revenue. A URL that is tied to a legacy media company's brand may be a mixed blessing in a world that has moved beyond the original medium, and it will restrict the owner's ability to realize a terminal value for the site by selling it to another entity; geographic and generic URLs are more transferrable.

The latter point is worth exploring further. The McClatchy Company owns a number of geo-domain URLs where it also owns newspapers: Sacramento.com, Anchorage.com, Miami.com, KansasCity.com and Charlotte.com. After more than a decade of redirecting visitors from Miami.com to MiamiHerald.com, its news-and-classifieds-laden newspaper site, McClatchy re-launched Miami.com as a separately branded entertainment site. The Tribune Co. has done something similar with metromix.com, an entertainment site being branded separately from chicagotribune.com and newsday.com in New York.

But how much value does an attractive geo-domain name hold in and of itself? Recent sales of geo-domain names indicate that there's certainly value, but it is nowhere near the value of a local site that has invested something in technology, content, branding and local sales. Locally owned geo-domain sites with six-figure revenue streams have recently been shopped around for \$1 million to \$5 million, while mere URLs are selling for much less. Compare Victorville.com (\$26,500), SaintAugustine.com (\$60,000) and even ClevelandAkron.com (\$988).¹²

Unlike owning prime real estate on a heavily trafficked street, ownership of an attractive geo-domain doesn't necessarily translate to high traffic. We examined traffic estimates on Quantcast.com for 70 local Web sites with City.com URLs and found no automatic correlation between market size and site traffic. In other words, a big-city geo-domain like NewYork.com without a traditional media company's content and promotion behind it might get as much traffic as a small-market geo-domain like jacksonville.com, which is promoted heavily by its owner, *The Florida Times-Union*. (Population of New York City: 8 million; Jacksonville, FL, 800,000. Traffic for both sites: about 400,000 monthly visitors. See Figure 10.)

¹² Sources: Name.com, Sedo.com, Domain Name Journal (dnjournal.com).



7: VALUE MAGNIFIERS FOR WEB SITES

FIGURE 10 Top Geo-Domain Sites: Ownership and Traffic

www.city.com	Owner	U.S. Persons per Mo. (Quantcast)
Boston.com	New York Times Company	3,700,000
KansasCity.com	McClatchy Newspapers	1,500,000
Cincinnati.com	Gannett	780,600
Charlotte.com	McClatchy Newspapers	508,400
HamptonRoads.com	The Virginian-Pilot	480,800
Jacksonville.com	Morris Publishing Group, LLC	420,200
NewYorkCity.com	New York City LLC	405,500
Omaha.com	Omaha World -Herald	402,200
Madison.com	Madison Newspapers, Inc.	391,900
LasVegas.com	Stephens Media	336,800
LosAngeles.com	Boulevards New Media	228,900
Miami.com	McClatchy Newspapers	214,300
Bakersfield.com	The Bakersfield Californian	181,000
Houston.com	Boulevards New Media	160,200
SanFrancisco.com	Boulevards New Media	158,000
Lincoln.com	Ford Motor Company	150,700
SanJose.com	Boulevards New Media	150,300
Seattle.com	Boulevards New Media	126,600
Dallas.com	Boulevards New Media	116,800
Philadelphia.com	Boulevards New Media	108,400
Denver.com	Boulevards New Media	108,300
Orlando.com	Hotels.com	82,800
FortWayne.com	Fort Wayne Newspapers	75,100
Tucson.com	Tucson Newspapers Inc.	69,800
Chicago.com	Josh Metnick	63,900
VirginiaBeach.com	VirginiaBeach.com	63,000
SanAntonio.com	Boulevards New Media	59,800
Detroit.com	Boulevards New Media	58,200
StLouis.com	Boulevards New Media	56,700
FortWorth.com	Fort Worth Convention & Visitors	56,400
Reno.com	Swift Communications, Inc.	54,900
Newark.com	Newark InOne	54,000
Nashville.com	Castello Cities Internet Network	53,000

www.city.com	Owner	U.S. Persons per Mo. (Quantcast)
Minneapolis.com	Boulevards New Media	33,800
Phoenix.com	Phoenix Technologies	33,000
NewOrleans.com	NewOrleans.com Media, LLC	31,800
ColoradoSprings.com	Freedom Communications	29,700
Buffalo.com	The Buffalo News-Berkshire	28,300
Akron.com	Leader Publications	25,400
Louisville.com	Louisville Magazine, LLC	24,300
Toledo.com	ToledoWeb	23,700
Lexington.com	Lexington Furniture Industries	23,600
ELPaso.com	El Paso Corporation	22,700
Atlanta.com	Atlanta.com LLC	21,600
Raleigh.com	Boulevards New Media	20,100
Fresno.com	Central Valley Internet Project	19,400
Scottsdale.com	Scottsdale.com	18,100
Sacramento.com	McClatchy Newspapers	16,000
Tulsa.com	InternetWorks	15,700
Indianapolis.com	Boulevards New Media	12,500
ChulaVista.com	Blinder Entities, Inc.	10,800
OklahomaCity.com	CCH Domains LLC	8,700
Washington.com	Nameview, Inc	8,200
Baltimore.com	Destinations Network	8,100
Albuquerque.com	Boulevards New Media	7,300
Tampa.com	Reflex Publishing, Inc.	7,200
Portland.com	Strategic International Domains	6,600
CorpusChristi.com	Fuel Interactive	6,500
LongBeach.com	Castello Cities Internet Network	6,100
Austin.com	Real/Time Communications	5,300
Aurora.com	Aurora Networks, Inc.	4,700
Riverside.com	Riverside Technologies Inc.	2,900
Plano.com	Plano Components	2,400
Honolulu.com	Destinations Network	1,700
Cleveland.com	Advance Internet (Newspapers)	1,300
Arlington.com	Goodman Property Investors	120

Source: Borrell Associates Inc., Quantcast



8: SUMMARY AND CONCLUSIONS

The purpose of this paper has been to answer the question of what local media company Web sites are worth. From our analysis, we have concluded:

- Newspaper-owned Web sites are typically more developed than those associated with other media. Web sites owned by the largest local newspapers in the US are worth \$300 million to \$450 million.
- Newspaper site values are being hindered by the economy and by the types of advertising these sites emphasize and attract.
- Local television Web sites are not as developed as newspaper sites, but are positioned for rapid growth over the next few years. The values of the largest-grossing Web sites owned by local TV stations in the US are between \$30 million and \$40 million.
- Radio Web sites are not as developed as newspaper or TV sites, but have high potential for growth. The values of largest-grossing Web sites owned by local radio groups in the US are between \$15 million and \$20 million.
- Independently owned pure-play Web sites are just beginning to make significant inroads in local online markets. While these sites are expected to show substantial growth over the next few years, they do not benefit from the same synergies associated with local traditional media Web sites – namely promotion, content and current advertiser relationships.
- Local domain “parkers,” or those who own an attractive geo-domain such as Laredo.com, Poconos.com or 90210.com, have properties that are difficult to value because of their miniscule or non-existent revenue. They are worth, basically, what people are willing to pay for them.

Internet operations owned by media companies have great potential for adding value to the entire local media property. Pure-play operators who have invested in and are currently growing their revenues also have tremendous potential. Success in realizing these estimated values is highly contingent on these operations continuing the strong revenue growth history of the past few years.

These operations will have to adapt to shifting demands in the interactive advertising arena, providing rich media and digital video products that represent the fastest-growing revenue opportunities. Developing new customers and selling new advertising formats will require developing separate sales staffs focused on the interactive operation. With those commitments, local traditional media and pure-play companies can develop significant values for their entire local operations.



WHAT LOCAL MEDIA COMPANY WEB SITES EARN: 2008 SURVEY

APPENDIX 1

Borrell Associates has conducted its annual local Web site revenue/expense survey for the past sixth years. Our latest survey covers more than 3,200 local media properties. Newspaper, TV and radio data are projectable because of the large sample size.

Data requested in this year's survey included:

- Total interactive revenue
- Total interactive expenses
- Revenue attributed to online employment, automotive and real estate sales
- Revenue attributed to national online advertising sales
- Revenue attributed to streaming audio
- Revenue attributed to streaming video
- Percentage of revenue driven by "up-sold" print or broadcast advertising
- Percentage of revenue derived from banners and pop-ups
- Number of dedicated (online-only) salespeople
- 2008 budget projections for all of the above

In addition to the annual survey, Borrell Associates collects data year-round from local online operations and conducts ongoing surveys that dissect interactive sales efforts at the local level.

For a complete survey form and more details on the revenue survey, see "What Local Media Sites Earn, 2008 Survey," which can be found at www.borrellassociates.com.



DISCOUNT RATE DETERMINATION

APPENDIX 2

The rate at which future earnings are discounted to their present value is influenced by such factors as the degree of risk associated with the given industry or specific business entity under consideration, rates of return for alternative investment opportunities, historical rates of return earned by comparable properties and market expectations of future interest rates and investment returns. The discount rate is often tied to such generally available items as the inflation rate, securities (Treasury Bills), mortgage loans or corporate bonds.

In this case, the weighted average cost of capital was based on the hypothetical buyer of the site's 1) cost of debt, 2) cost of equity, and 3) capital structure (the relative contribution of debt and equity).

In these valuations, we estimated that senior debt would supply 45 percent of the total capital structure, followed by equity at 55 percent.

The Cost of Debt

We estimated the debt rate as the 3-month London Inter Bank Offer Rate (LIBOR) rate (2.80 percent) as of August 15, 2008, plus 600 basis points¹³. This results in a debt rate of 8.80 percent. To calculate the after-tax cost of debt, we then adjusted the rate for the presence of federal and state income taxes (assumed to be 5.75 percent).

Taking these adjustments into account, the after-tax cost of debt used in our discount rate calculation for the sites is:

$$\text{After-tax cost of debt} = [8.80\% \times (1 - \text{State tax rate}) \times (1 - 0.35) \times 0.45] \approx 2.4\%$$

Taxes were included in the model on the assumption that the hypothetical typical buyer would be a tax-paying entity.

The Cost of Equity

We used the Capital Asset Pricing Model (CAPM) to estimate the cost of equity. As noted below in our presentation of the CAPM, application of the model requires consideration be given to: 1) current "risk-free" interest rates available in the marketplace (such as those of US Government and high-grade corporate bonds); 2) the returns on small capitalization publicly traded stocks; and 3) the relative risks associated with the stock of the subject company (including consideration of the industries in which it operates), relative to the overall stock market, as measured by Beta:

$$K_e = R_f + B [R_m - R_f] + [R_s - R_m] + \text{CSRP}$$

Where:

K_e = Return on Equity (Cost of Equity)

R_f = Risk-Free Interest Rate

B = Beta, a measure of the volatility of a specific investment in relation to the Market Portfolio

R_m = Return on the Stock Market Portfolio

R_s = Return on Small Market Stocks

CSRP = Company Specific Risk Premium

¹³ The number of basis points is based on discussions with bankers familiar with lending rates in the industry.

DISCOUNT RATE DETERMINATION

APPENDIX 2

The risk-free component of the CAPM represents the expected return by an investor for investing in a totally risk-free investment. The return (interest rate) on US Treasury securities of the same maturity as the investment under consideration is normally considered as an appropriate risk-free (interest) rate. We selected 20-Year US Treasury Constant Maturities (with a 4.50 percent interest rate on August 15, 2008) as the risk-free rate to use in the CAPM.

Next, an equity risk premium is added ($B [R_m - R_f]$ in the CAPM equation above). This consists of a risk premium for equity investments in general, adjusted for the amount of market-related risk associated with the assets in question as measured by Beta. According to Duff & Phelps, LLC, the average historical market risk premium for large company common stocks, based on historical prices from 1963-2007 (per Ibbotson SBBI data), is 4.85 percent. We utilized a median beta for the television industry of 0.59, which is the five-year average weekly beta of the publicly traded television companies, relative to the S&P 500. Multiplying the large stock market risk premium of 4.85 percent by 0.59 produces the equity risk premium of 2.9 percent.

We then added a return in excess of CAPM, also known as the size premium or beta-adjusted size premium, ($[R_s - R_m]$ in the CAPM equation above). The size premium of 4.21 percent references the median size premiums for the publicly traded television companies based on eight different measures of size (as determined by Duff & Phelps, LLC's *Risk Premium Report 2008*) as shown in the table below. Our calculations, based on the regression formulas in the Duff & Phelps study are detailed below.

SMOOTHER PREMIUM OVER CAPM CALCULATION

Size Category	Median (in Millions)	Smoothed Premium Over CAPM ¹
Market Value of Equity	337	5.48%
Book Value of Equity	406	3.89%
5 Year Avg Net Income	26	4.45%
MVIC	1,167	4.13%
Total Assets	1,612	3.68%
5 year Avg EBITDA	188	3.88%
Sales	741	4.29%
# Employees	2,760	4.33%
AVERAGE:		4.27%
MEDIAN:		4.21%
Source: Duff and Phelps, LLC, Risk Premium Report, 2008.		
¹ Calculated using regression formula from Tables B1-B8		

¹⁴ Average historical arithmetic market equity risk premium for large company stock (Ibbotson SBBI data): Risk Premium Report 2008, Duff & Phelps, LLC.



DISCOUNT RATE DETERMINATION

APPENDIX 2

Finally, a 3.31 percent company specific risk premium is added to the equation to account for the additional risk to the likely buyer of the subject television stations. The 3.31 percent is the 5-day median company-specific risk premium of the publicly traded television companies (see table below) as of August 15, 2008 (source: Butler Pinkerton Model™).¹⁵

Company Specific Risk Premium from Butler Pinkerton Model™

DAY MEDIAN Median Size Premium CSRP				8/15/2008	8/14/2008	8/13/2008	8/12/2008	8/11/2008
				CSRP	CSRP	CSRP	CSRP	CSRP
BLC	Belo Corp.	3.62%	1.9%	1.7%	1.9%	1.9%	2.1%	1.8%
MEG	Media General, Inc.	4.07%	4.1%	2.5%	4.6%	4.1%	4.1%	2.2%
GTNA	Gray Television Inc.	4.39%	4.1%	4.1%	5.6%	5.0%	4.1%	3.5%
SBGI	Sindair Broadcast Group Inc.	3.98%	4.9%	5.7%	5.6%	3.9%	4.3%	4.9%
HTV	Hearst-Argyle Television Inc.	3.44%	2.6%	1.7%	2.9%	2.6%	3.0%	1.1%
FSCI	Fisher Communications Inc.	5.12%	-0.1%	-0.1%	0.4%	-0.2%	0.2%	-0.5%
EVC	Entravision Communications Corp.	4.75%	3.3%	3.9%	3.6%	3.3%	3.3%	2.4%
AVERAGE:				3.0%	2.8%	3.5%	3.0%	2.1%
MEDIAN:				3.3%	2.5%	3.6%	3.3%	2.2%

A 3.31 percent CSRP for the likely buyer produces the following cost of equity:

Cost of Equity = 4.50% + 2.88% + 4.21 + 3.31% = 14.90%, or **14.9 percent**

The Weighted Average Cost of Capital

Combining our estimates for debt and equity into a weighted average formula produces the following final figure for the weighted average cost of capital (WACC) used in our analysis:

WACC = [0.024] + [0.1490 x 0.55] ≈ **10.6 percent**

¹⁵ The Butler Pinkerton Model™ relies on total beta, which captures the total risk for a publicly traded stock. The calculator allocates risk between the risk free rate, systematic risk, the size premium, and CSR for each stock. (See www.bvmarketdata.com).



Median Values of Web Sites by Type and Revenue Range

APPENDIX 3

NEWSPAPERS

Revenue Range	\$2.5 Million Or Greater	\$750 Thousand-\$2.5 Million	\$200-\$750 Thousand	\$0-\$200 Thousand
Median Revenue (\$000s)	\$6,563	\$1,350	\$480	\$105
Median Value (\$000s)	\$29,989	\$5,645	\$1,564	\$498
Median 2008 Revenue Multiple	4.6	4.1	3.3	4.7
Median 2008 Cash Flow Multiple	10.4	11.2	12.3	37.9

TELEVISION

Revenue Range	\$800 Thousand or Greater	\$400-\$800 Thousand	\$200-\$400 Thousand	\$0-\$200 Thousand
Median Revenue (\$000s)	\$1,500	\$715	\$371	\$105
Median Value (\$000s)	\$9,032	\$3,601	\$1,427	\$529
Median 2008 Revenue Multiple	4.1	5.0	3.8	5.0
Median 2008 Cash Flow Multiple	11.2	16.9	20.9	30.8

RADIO

Revenue Range	\$500 Thousand or Greater	\$150-\$500 Thousand	\$40-\$150 Thousand	\$0-\$40 Thousand
Median Revenue (\$000s)	\$1,130	\$356	\$144	\$40
Median Value (\$000s)	\$5,848	\$1,908	\$717	\$255
Median 2008 Revenue Multiple	5.1	5.2	5.8	6.4
Median 2008 Cash Flow Multiple	15.4	20.5	25.4	N/A

Source: Borrell Associates, BIA Financial Network



COMPANY PROFILE

Borrell Associates is an advertising research and consulting firm with a concentration on online media. We help media companies develop and implement successful strategies for maximizing their local ad revenue.

We uncover the advertising potential in a local market by drawing on primary research and our comprehensive data model of ad spending at the local level.

Simply put, we help media companies make money.

Market Intelligence

WebAudit™ Report - Get a detailed look at online ad spending in your local market. The data include local online ad shares by type of Web site operator (pure-play, TV, newspaper, etc.) and comparisons with peers. A WebAudit helps managers identify and size strategic sales opportunities by comparing the local spending patterns of individual business categories and major vertical market segments (Auto, Jobs, General Merchandise, etc.) with U.S. norms and analyzing the differences. Ad reps can use the report to strengthen presentations and enhance their role as consultants in the sales process.

LA\$R (Local Ad Spend Report) - This market data provides comprehensive estimates of ad spending across 11 major media types (newspapers, TV, billboards, online, etc.) by each of the top 100 business categories in a market. Conversely, the report also presents the amounts that each medium receives from each of the business categories, with a summary of their relative shares of total ad spending. Both views give estimates of spending by advertisers located inside and those located outside the market.



WebSegment™ - This data divides a market's population into five segments defined by the amount of time a person spends using the Internet (ranging from no time to more than 20 hours per week). The report offers insights into a market's demographics, media usage patterns and purchasing behavior based on the amount of time a person spends using the Internet.

Media Profile - This report provides a snapshot of local media usage – including usage of newspapers, coupons, online services, and overall broadband and Internet patterns – in a specific market. This report also illustrates levels of online spending by consumers on key items such as clothing, computer software, books, etc. We use a combination of Scarborough Research's data (updated twice a year) and data from Claritas.

Custom Market Data - Our researchers can generate unique data sets that provide insight for a variety of market segments. For example, we have developed detailed trending analyses of local automotive ad spending in multiple markets for a network of cable companies and have provided deep segmentation of ad-spending data by business size for a national portal.



COMPANY PROFILE

Other Products and Services

Online-Sales Training - Our program provides hands on, in-the-field training that utilizes local Web usage patterns and ad spending data from your market to build dynamic, compelling sales pitches. The program also offers guidance on sales recruitment, compensation, staff structure, rates and marketing materials. The typical program is two to three days per market, including one day of "classroom" training followed by sales calls with your sales team.

Consultation - Uncover the advertising potential in your local marketplace by drawing on the research we conduct throughout the year on thousands of local media operations. We work with Internet businesses, online media companies, newspapers, TV and radio stations, and vendors who provide enabling technology to these outlets. We provide executive-level strategies that focus on helping your company grow local advertising revenues exponentially rather than incrementally.

Research Reports - We publish 10 to 12 research reports per year that provide an in-depth look and analyze major trends in local online advertising. Reports include annual revenue benchmarking for local media sites; reports on the automotive, real estate and recruitment verticals; and an annual outlook report published in early fall designed to provide next-year budget guidance.

Presentations - We conduct a large number of presentations every year, typically for executive management, industry seminars and trade conferences. Each presentation is tailored to your needs. We tie the "big-picture" analysis into actionable information about the audience's specific markets. These presentations are challenging, insightful and filled with facts about the future direction of new advertising formats and trends.

Webinars - Borrell Associates can host and deliver an exciting Webinar for your organization or association. Our topic list is extensive and we tailor a presentation for each audience. We offer research and factual evidence backed by real-world experience.



For more information and to download data samples, visit www.borrellassociates.com



COMPANY PROFILE

BIA Financial Network, Inc. (BIAfn) has served the media and communications industries for more than two decades with financial and strategic advisory services, as well as a comprehensive array of research and investment resources. In addition to providing competitive and comparative information and analysis, BIAfn is also the nation's leading communications appraisal and valuation firm. Its affiliated company, BIA Capital Strategies, provides merger and acquisition advice, and arranges equity and debt funding. BIA Digital Partners LP provides subordinated debt and preferred equity investments to medium stage communications companies.

Whether you need assistance with business strategy and planning, business intelligence, financial consulting or funding BIA Financial Network's comprehensive array of services can improve your ability to expand, compete, advise or invest in the media and communications industries.

BIAfn Strategic Consulting

- Market Analysis & Entry Strategies
- Competitive Analysis & Intelligence
- Demand Forecasting
- Strategic Planning & Business Modeling
- ROI Assessments
- Technology Assessments
- Operational Consulting
- Custom Studies on Regulatory Issues

BIAfn Financial Consulting

- Fair Market Valuations
- Purchase Price Allocations
- Asset Appraisals
- Operational Due Diligence
- Litigation Consulting & Testimony

BIAfn Research Services

- MEDIA Access Pro™ Database Service & Software
- Custom Research Analysis and Services
- Investment Reference Guides & Business Directories
- Engineering & Industry Studies, Briefs & White Papers



COMPANY PROFILE

BIA Capital Strategies, LLC Investment Banking

- Merger & Acquisition Advice
- Capital Formation & Capital Raising Advisory Services
- Member NASD, SIPC

BIA Digital Partners LP Private Equity Fund

- \$88 Million Fund, Licensed as an SBIC
- Subordinated Debt and Preferred Equity Investments

Technology Consulting

- Technology Feasibility Studies
- IT Consulting Solutions
- Content Delivery Networks
- Datacasting Solutions

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