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2007 U.S. Yellow Pages Market Outlook: Measuring the Health of the Industry

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2007 U.S. Yellow Pages Market Outlook: Measuring the Health of the Industry

Panelists:

Robert Coen

Senior Vice President, Forecasting,
Universal McCann

David Goddard

Senior Analyst/Editor,
Yellow Pages & Directory Report,
Simba Information

David Dunn

Managing Director, Signal Hill Capital Group

Peter Broadbent

CEO, Wahlstrom Group

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Advertising Outlook Report 2006 Midyear Update

by Robert J. Coen

Senior Vice President, Forecasting
McCann Erickson, New York



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U.S. Advertising Expenditures

Final Year 2005

		<u>% Change</u>
National Advertisers	\$172,797,000,000	+3.4%
Local Advertisers	<u>98,277,000,000</u>	<u>+1.7%</u>
Total	\$271,074,000,000	+2.8%

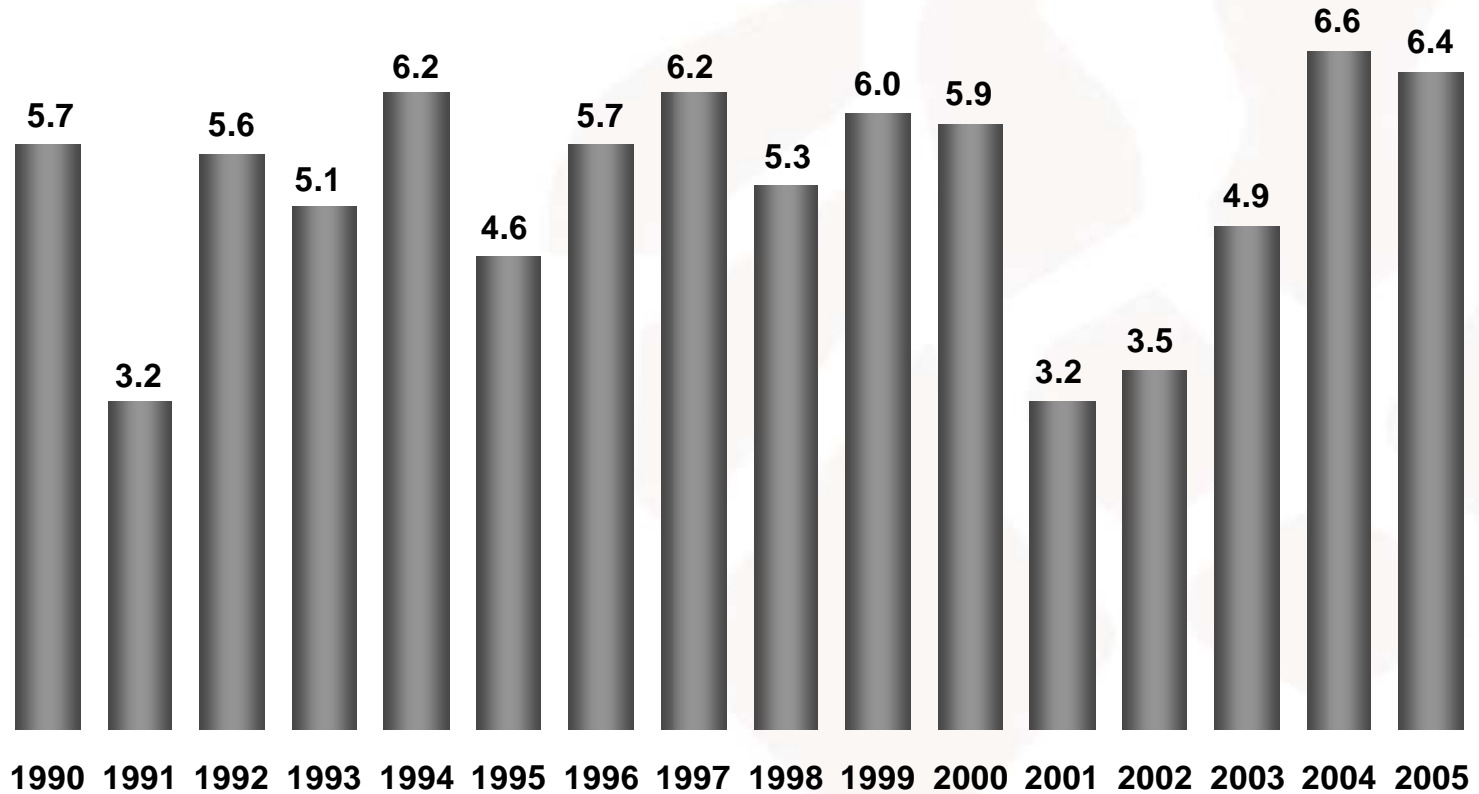


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Change in Nominal Gross Domestic Product Percent Change Over Previous Year

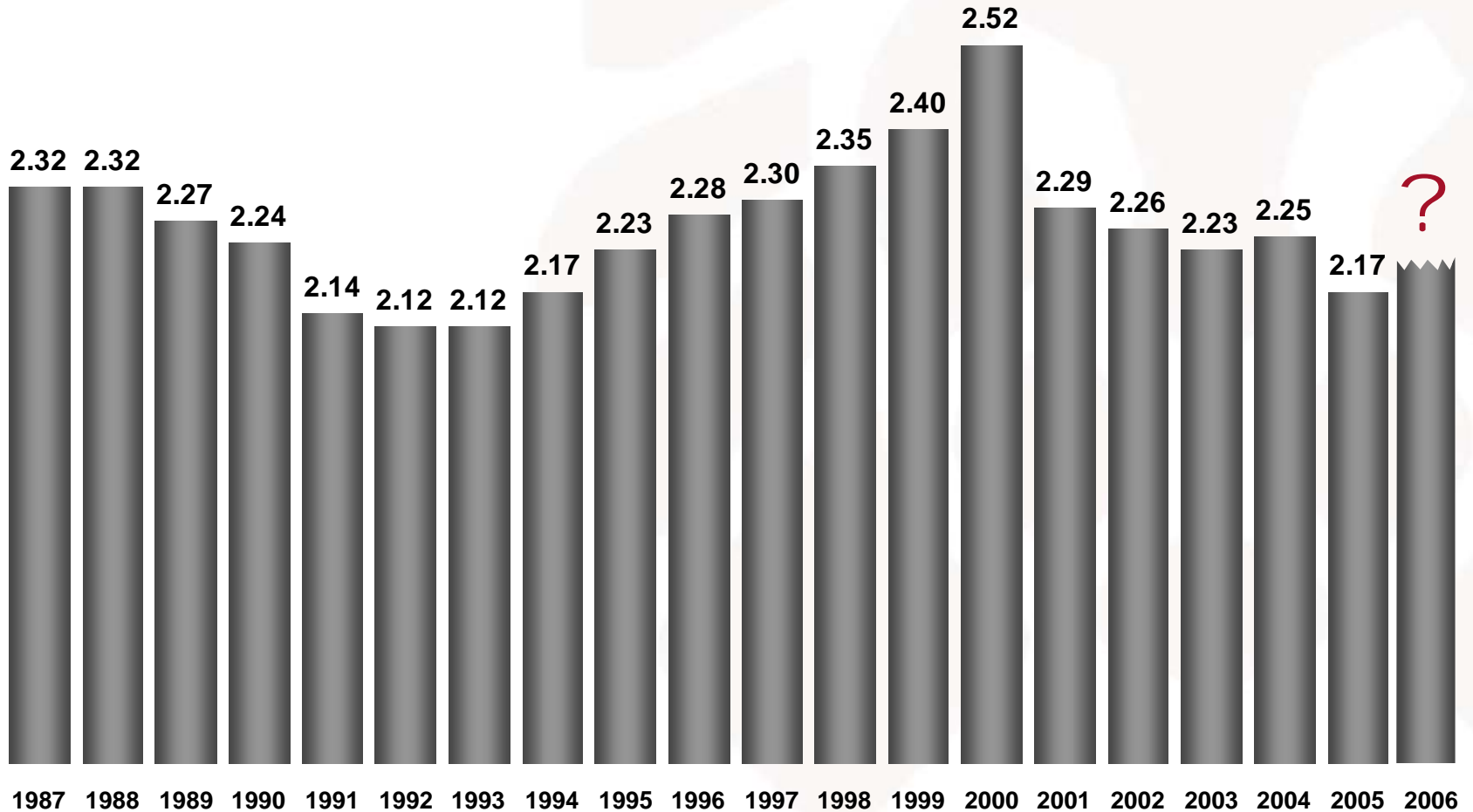


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Trend in Advertising as Percent of GDP



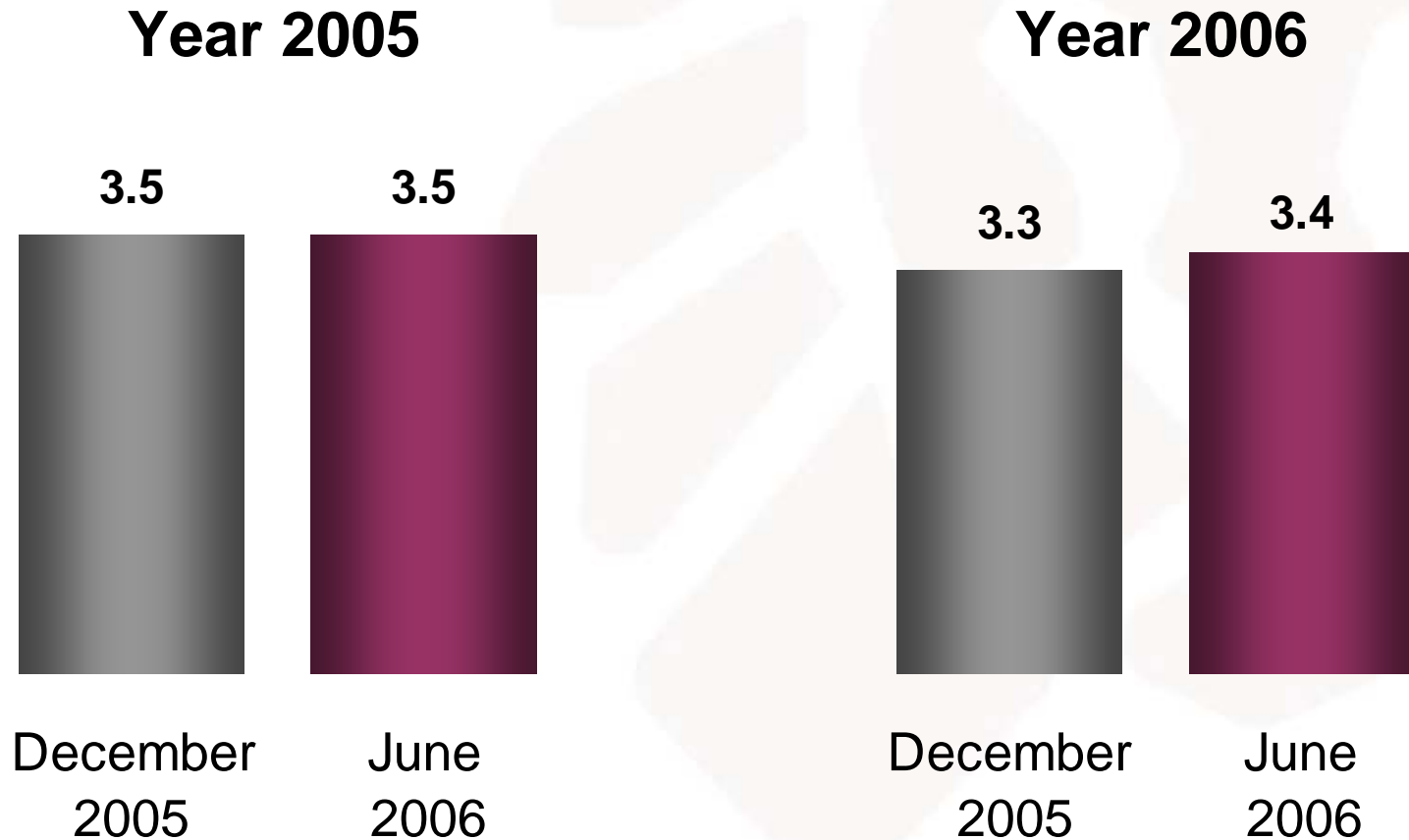
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Economic Expectations December 2005 and Now

Change in Real GDP



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Consumer Media Advertising by Dot-Com Brands (In Millions of Dollars)



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Revised Outlook for National Advertising 2006

	<u>% Change Over 2005</u>	<u>2006 \$(000,000)</u>
Four TV Networks	+6.5%	\$17,175
Spot TV	+10.0	11,045
Cable TV Networks	+4.5	19,120
Syndication TV	<u>+5.5</u>	<u>4,080</u>
Total TV	+6.4%	\$51,420
Radio	+1.0	4,325
Magazines	+4.5	13,425
Newspapers	<u>0.0</u>	<u>7,465</u>
Total Major Consumer Media	+5.1%	\$76,635



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Revised Outlook for National Advertising 2006 (Cont.)

	<u>% Change Over 2005</u>	<u>2006 \$(000,000)</u>
Major Consumer Media	+5.1%	\$76,635
Direct Mail	+8.0	59,635
Yellow Pages	+2.0	2,205
Internet	+25.0	9,705
Other National Media	<u>+6.3</u>	<u>36,925</u>
Total National	+7.1%	\$185,105



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Revised Outlook for Local Advertising 2006

	<u>% Change Over 2005</u>	<u>2006 \$(000,000)</u>
Newspapers	+2.0%	\$40,665
Television	+7.0	15,400
Radio	0	15,355
Yellow Pages	+1.0	12,185
Other Local Media	<u>+5.8</u>	<u>17,695</u>
Total Local	+3.1%	\$101,300



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Revised Outlook for Total Advertising 2006

	<u>% Change Over 2005</u>	<u>2006 \$(000,000)</u>
National	+7.1%	\$185,105
Local	<u>+3.1</u>	<u>100,300</u>
Total	+5.6%	\$286,405



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First Projection for 2007

	<u>% Change Over</u> (2005)	<u>Expenditures*</u> (\$ Billions)
U.S.	+5.8%	\$303.0
Overseas	<u>+6.6</u>	<u>337.0</u>
Total	+6.2%	\$640.0*

* Based on Local Currencies



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The Shifting Market Share

By David Goddard
Senior Analyst/Editor
Simba Information

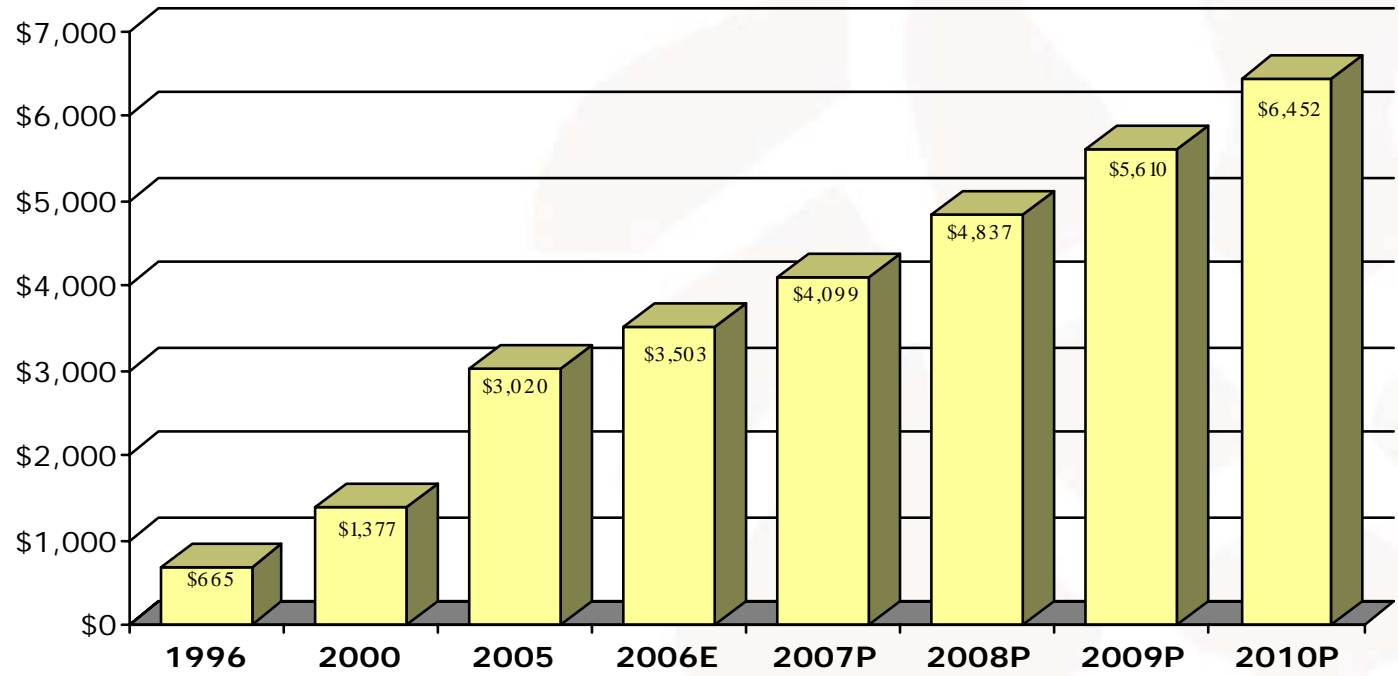


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Independent Yellow Pages Revenue, 1996-2010P



Source: *Independent Yellow Pages Markets 2006* (Simba Information).

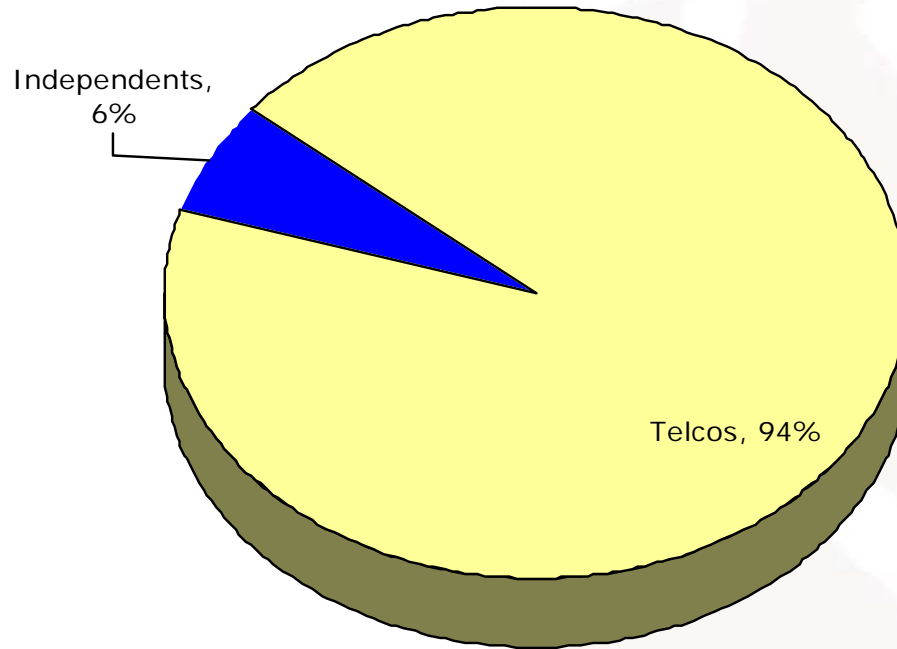


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Market Share, Independent Publishers vs. Telco Publishers, 1996



Source: *Independent Yellow Pages Markets 2006* (Simba Information).

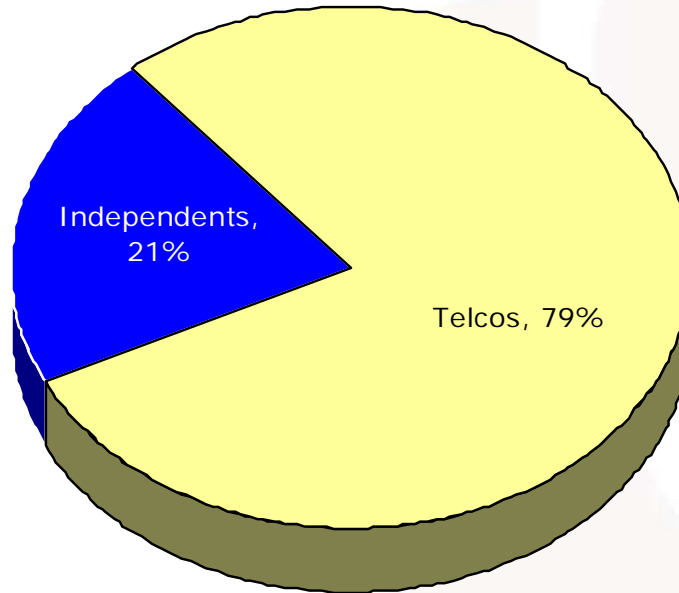


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Market Share, Independent Publishers vs. Telco Publishers, 2006



Source: *Independent Yellow Pages Markets 2006* (Simba Information).

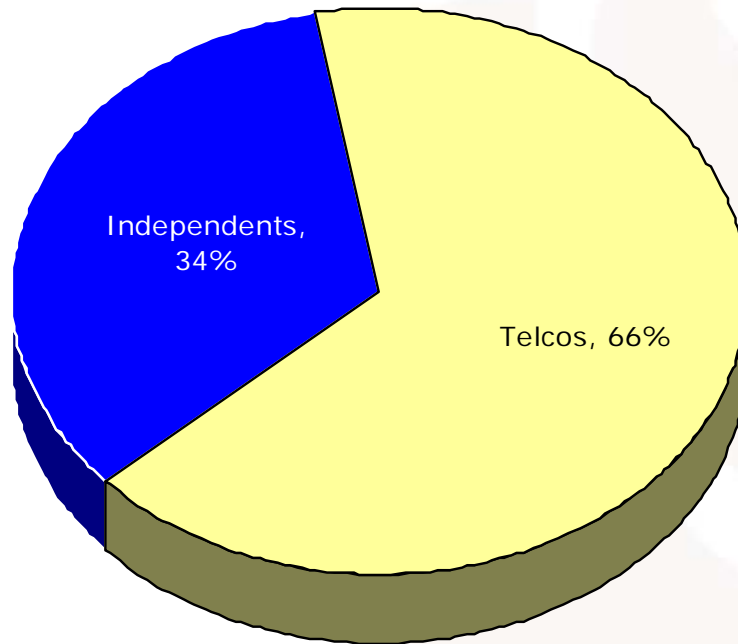


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Market Share, Independent Publishers vs. Telco Publishers, 2010P



Source: *Independent Yellow Pages Markets 2006* (Simba Information).



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Largest U.S. Yellow Pages Directory Publishers, 1999

(Revenue and circulation numbers in millions)

<u>Company</u>	<u>1999 Revenue</u>	<u>Titles</u>	<u>Circulation</u>
Ameritech	\$1,560.0	358	39.2
Bell Atlantic	2,220.0	509	72
BellSouth	1,760.0	500	52
SBC	2,350.0	492	81
GTE	1,721.3	564	42
US West Dex	1,380.0	300	45
Total Top 6 Companies	\$10,991.3	2,723.0	331.2
Total US YP Industry	\$12,800.0		
Top 6 companies as a % of industry	85.9%		

Source: *Independent Yellow Pages Markets 2006* (Simba Information).



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Largest U.S. Yellow Pages Directory Publishers, 2006

(Revenue and circulation numbers in millions)

<u>Company</u>	<u>2006 Revenue (E)</u>	<u>Titles</u>	<u>Circulation</u>
AT&T/BellSouth	5,846.0	1,250	173
Verizon	3,300.0	1,200	119
RHD/Dex	2,614.1	682	80
Yellow Book USA ¹	2,018.3	970	127
Total Top 4 Companies	\$13,778.4	4,102	499
Total US YP Industry	\$16,453.0		
Top 4 companies as a % of industry	83.7%		

¹ Simba Information estimate for fiscal year ended March 31, 2007.

Source: *Independent Yellow Pages Markets 2006* (Simba Information).



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Yellow Pages Revenue by Publisher Category, 2006 and 2010P

(\$ in millions)

<u>Type of Publisher</u>	<u>2006E</u>	<u>2010P</u>
Telcos	\$12,950	\$12,565
Non-telcos	\$3,503	\$6,452
Total	\$16,453	\$19,017
Market total % change	3.0%	3.9%

Source: *Independent Yellow Pages Markets 2006* (Simba Information).



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Signal Hill Capital Group

by David Dunn
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Overview of Signal Hill



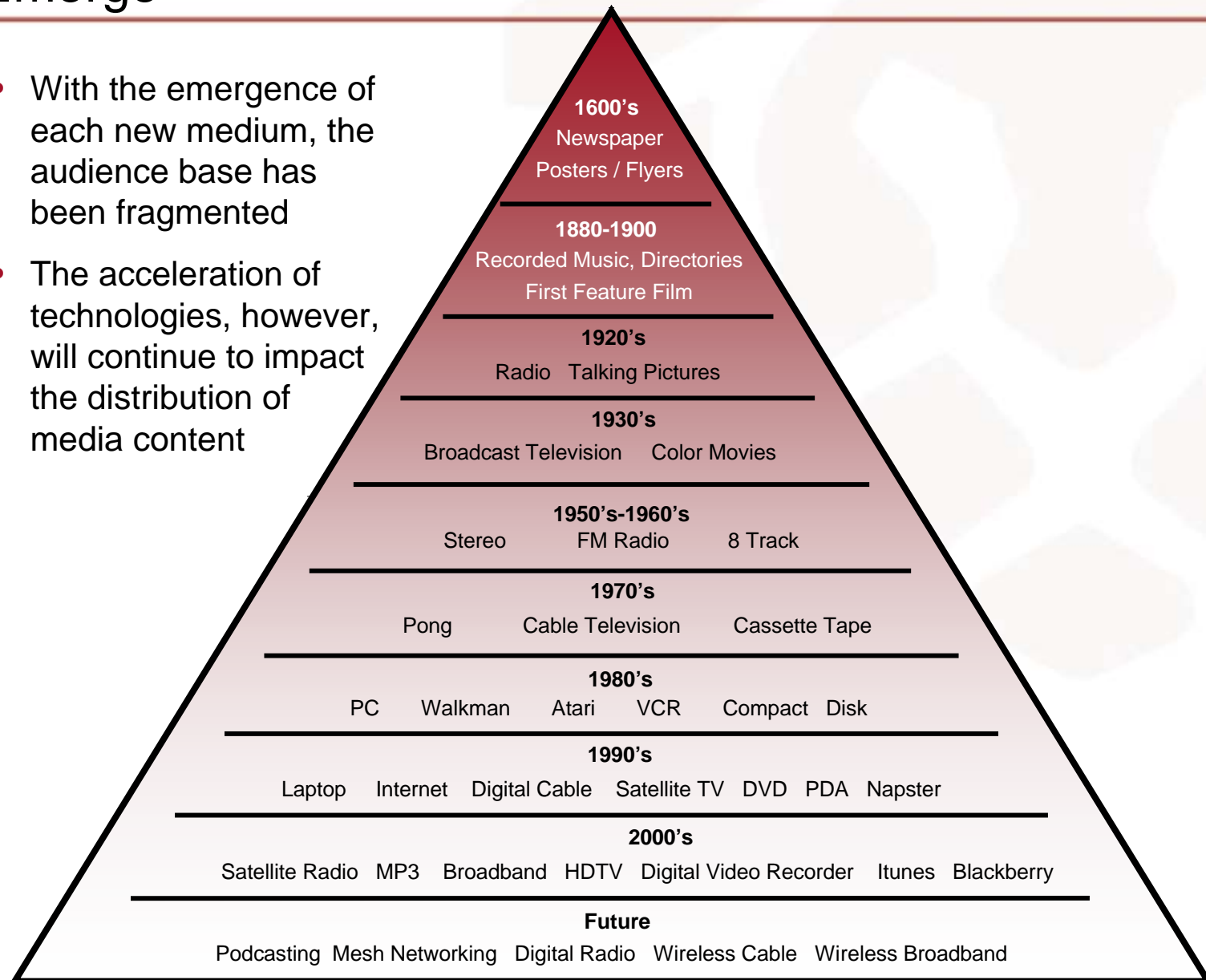
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Media Evolution – Distribution Channels Continue to Emerge

- With the emergence of each new medium, the audience base has been fragmented
- The acceleration of technologies, however, will continue to impact the distribution of media content



Advertising Industry Growth

Radio (-)

Cable (+)

Online (+)

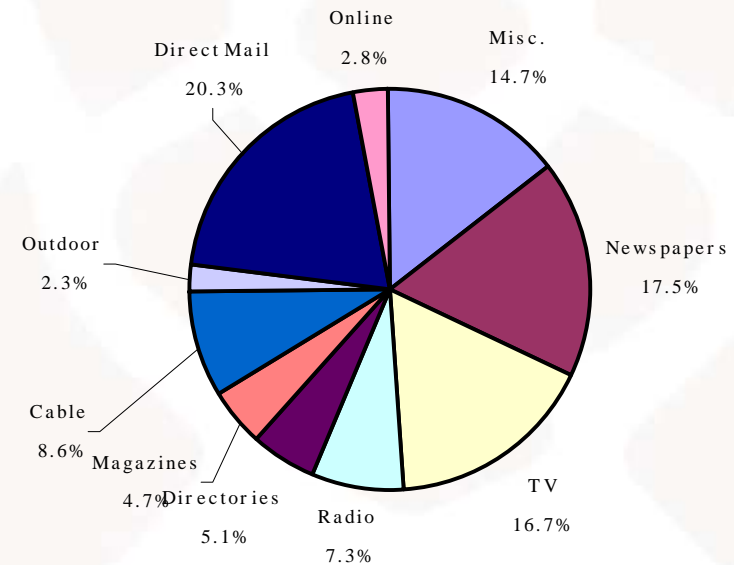
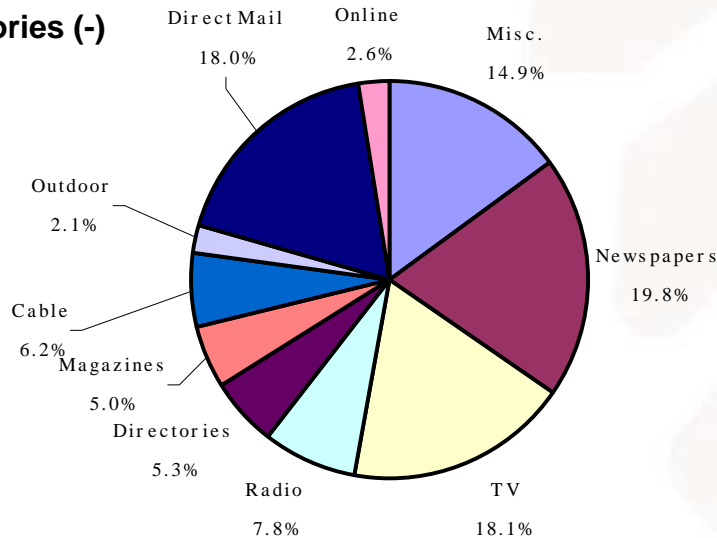
Newspaper (-)

TV (-)

Directories (-)

2000 Advertising Market

2005 Advertising Market



Source: Wall Street research



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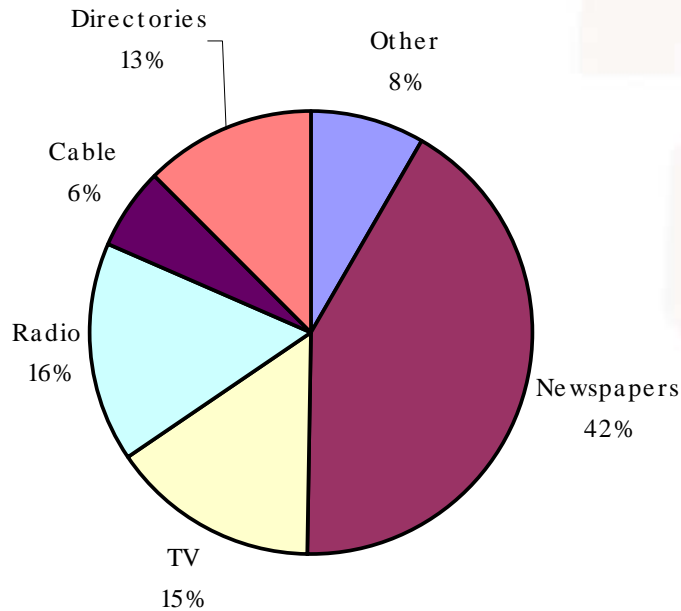
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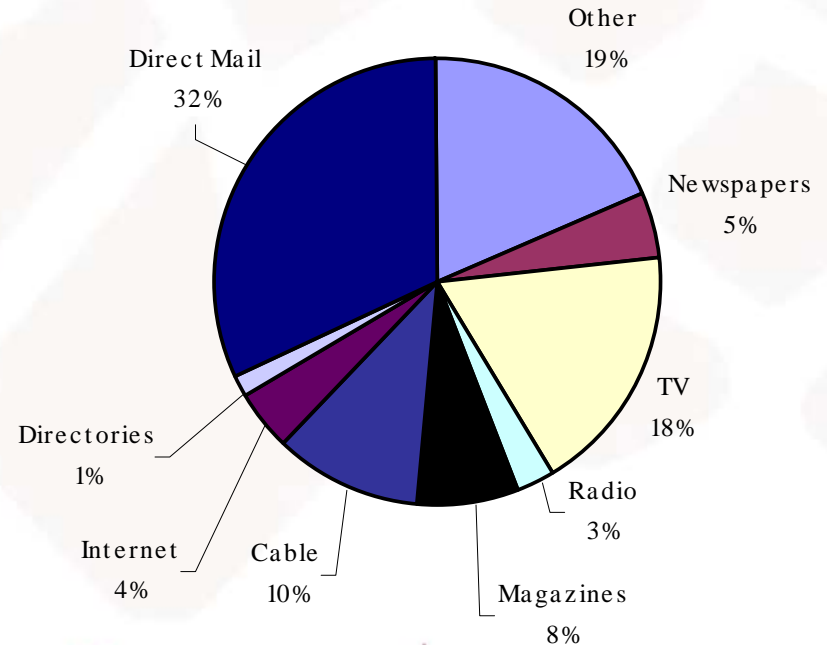
U.S. Market Share – Local vs. National – 2005

- Despite the share shift, newspapers continue to dominate the local advertising market

Local Market



National Market



Source: Wall Street research



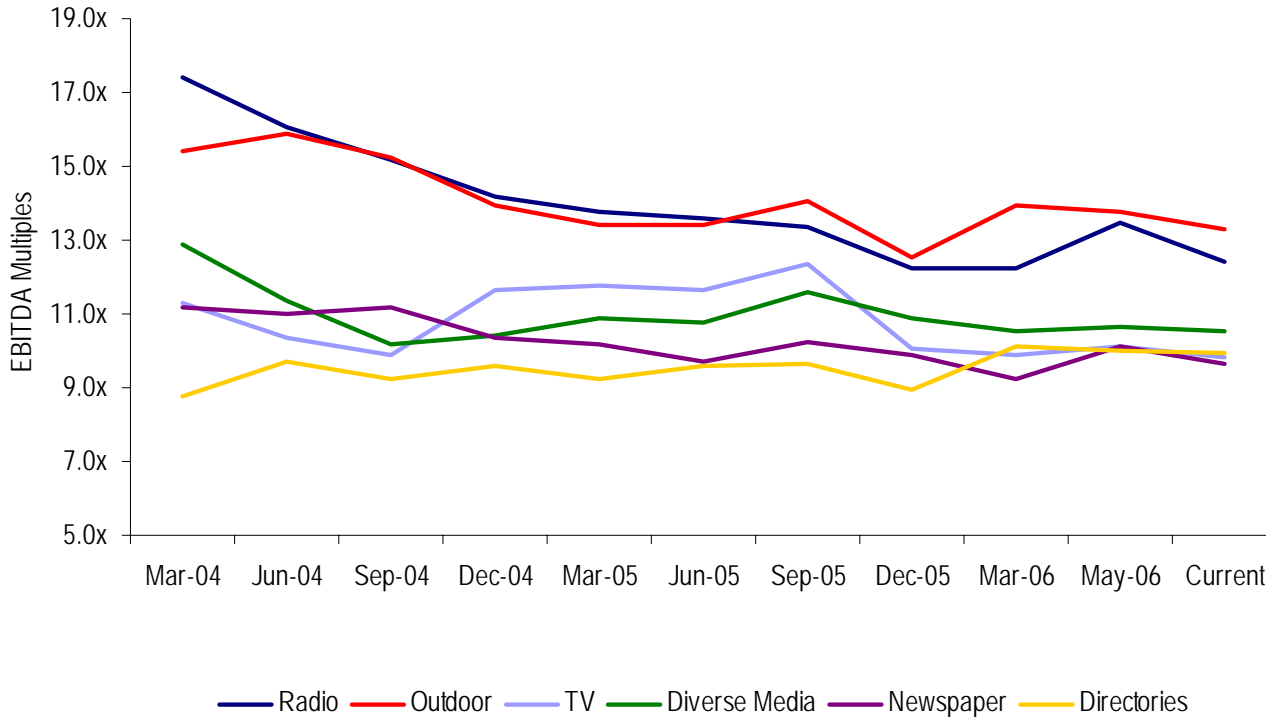
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Tracking Industry Multiples

Forward EBITDA Trading Multiples



Source: Radio average includes: Citadel, Cox Radio, Cumulus Media, Emmis, Entercom, Radio One, Regent, Salem, Spanish Broadcasting and Univision; Outdoor average includes: Lamar Advertising and Clear Channel Outdoor; Diverse media average includes: Clear Channel and Viacom; TV average includes: Hearst-Argyle, Sinclair and LIN TV; Newspaper publishing average includes: Journal Register, Knight-Ridder, Lee Enterprises and McClatchy; Directories average includes: R.H. Donnelley and Dex Media



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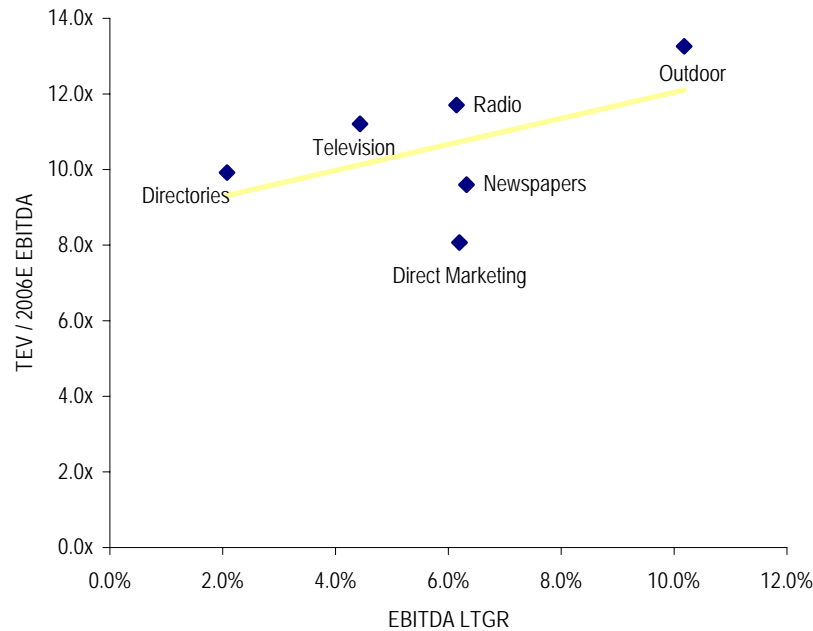
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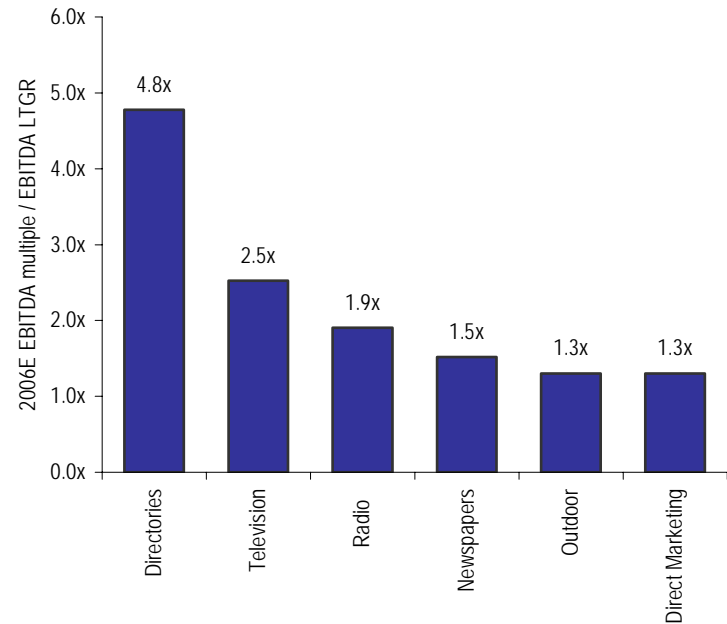
Valuation of the U.S. Media Sector – EBITDA Analysis

- Relative to projected sector EBITDA, all media are trading at a premium to projected long-term EBITDA growth rates

Trading Multiples Relative to Projected EBITDA Growth



EBITDA Trading Multiples / EBITDA Growth



Source: Wall Street research estimates and company filings



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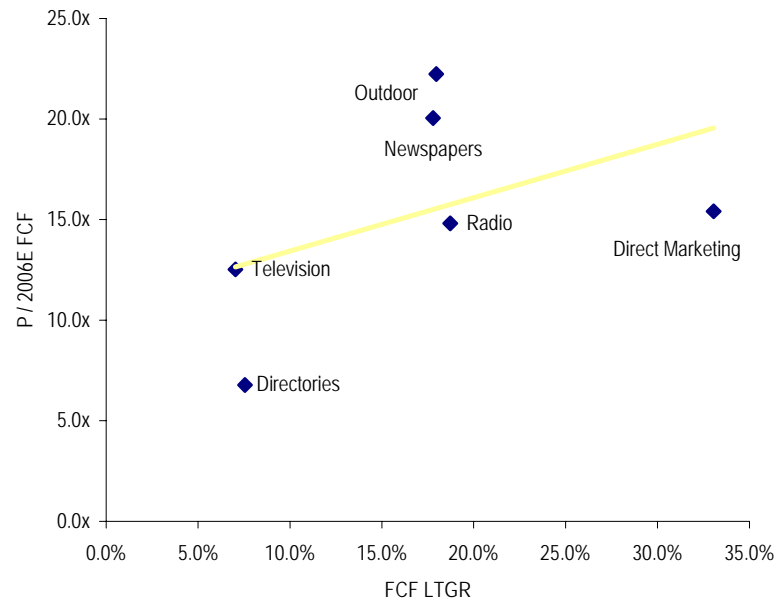
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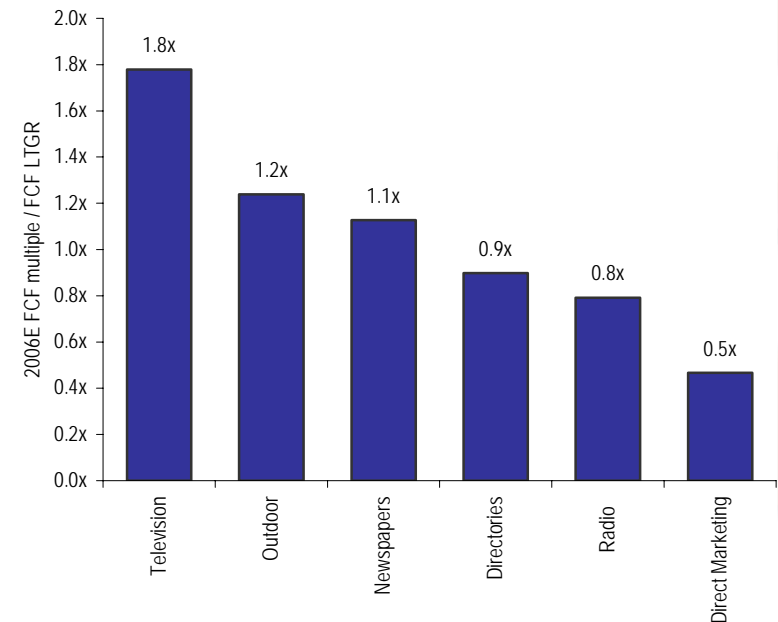
Valuation of the U.S. Media Sector – FCF analysis

- On a FCF basis, outdoor looks expensive largely due to significant capital expenditures associated with upgrading assets
- On an EBITDA and FCF basis, television is the most expensive relative to projected growth

Trading Multiples Relative to Projected FCF Growth



FCF Trading Multiples / FCF Growth



Source: Wall Street research estimates and company filings



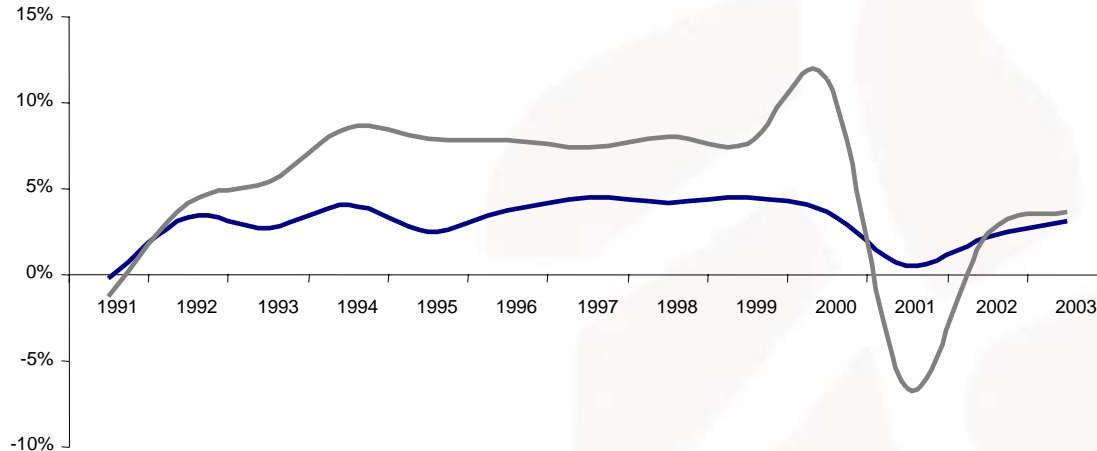
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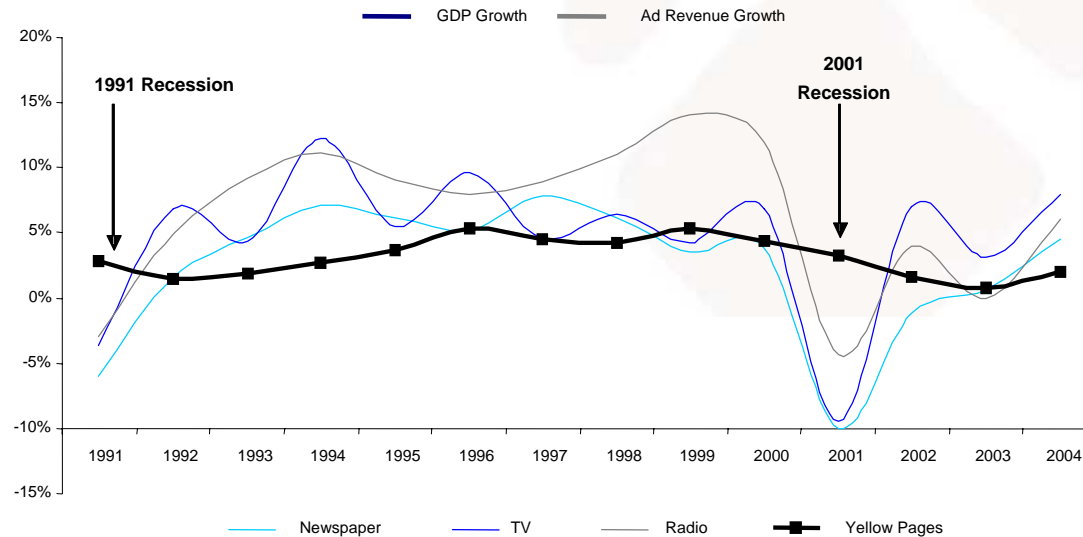
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Yellow Pages' Historical Performance

- Yellow pages is the only medium with positive growth as an industry through both the '91-'92 and '01-'02 recessions



Local Ad revenue outperformed GDP by 200 bps in boom times and underperformed by 520 bps in bust times

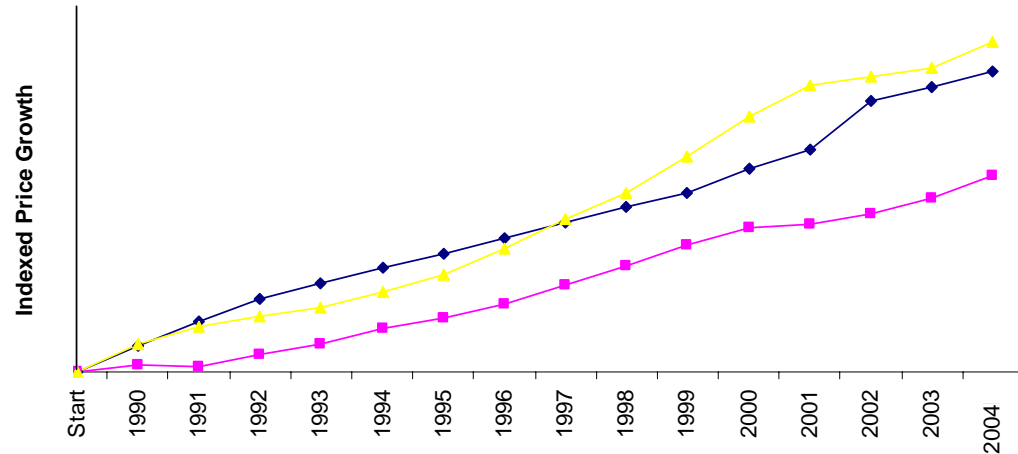


Yellow Pages long publication cycle hedges against up and down cycles. Yellow Pages was the only ad media to maintain positive growth in both 1991 and 2001 recession years

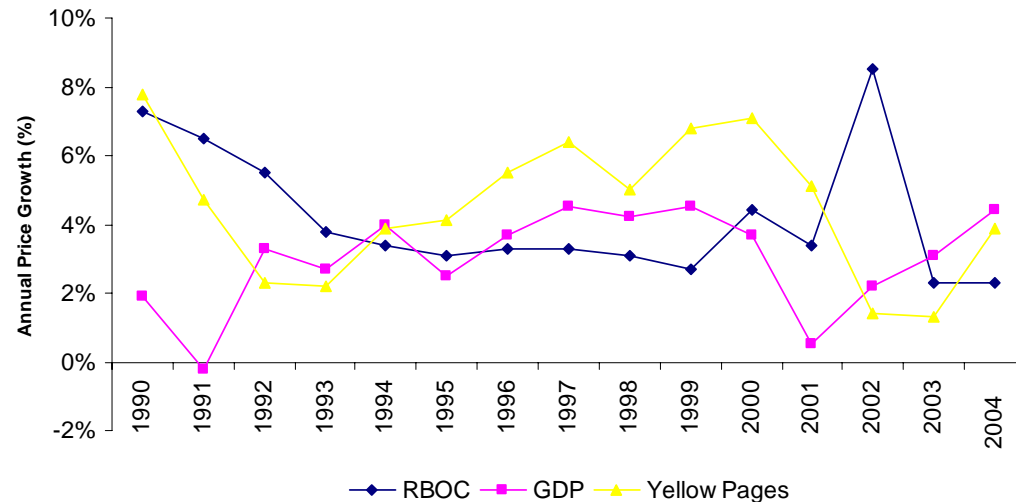
RBOC Pricing – No Longer Driving Growth

- As demonstrated by sector pricing growth, independent advertising price growth is increasingly driving sector trends

Indexed Price Growth: RBOC vs. GDP vs. YP

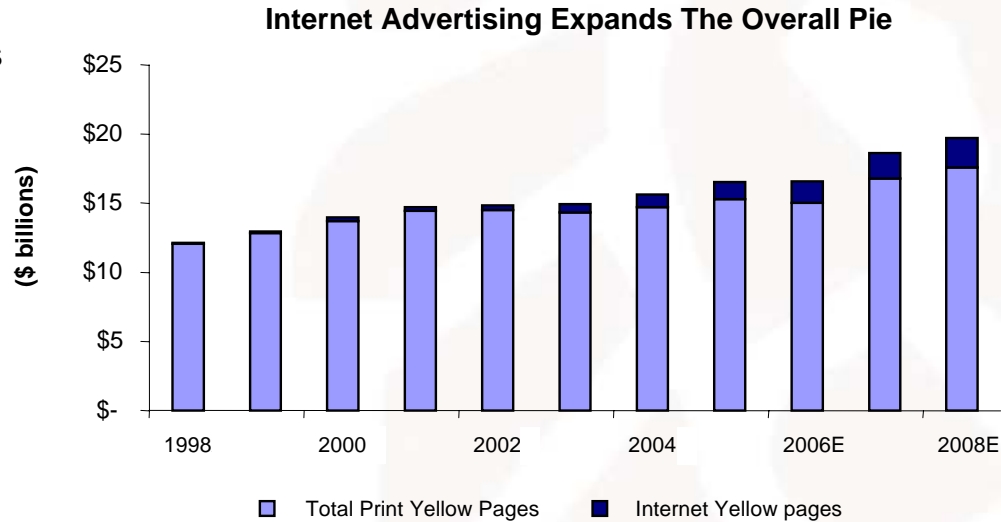


Annual Price Growth: RBOC vs. GDP vs. YP



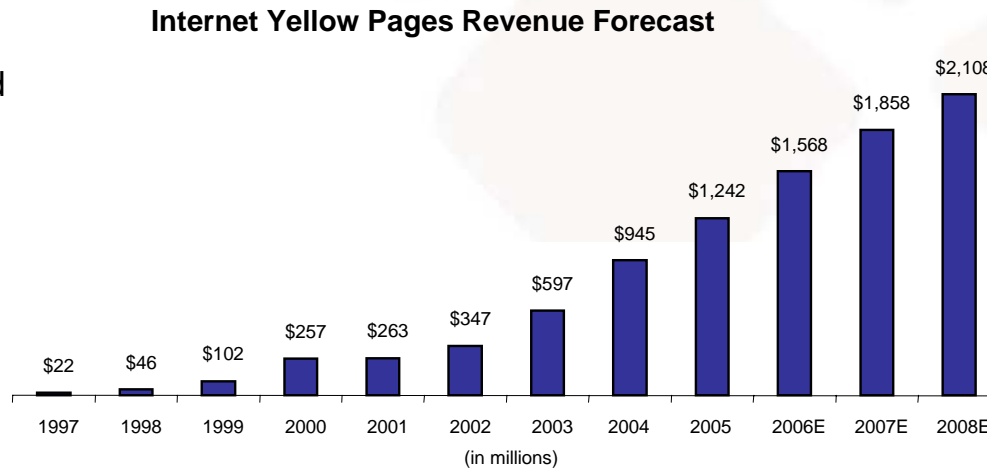
Electronic Media Expands the Pie

- Electronic media continues to expand the overall yellow pages advertising market, providing new opportunities for incumbents, independents and Internet-only publishers to increase market share



While the overall print market expands at a 3.5% 5-Yr CAGR, Internet YP should grow an incremental 22% annually reaching \$2B in 2008 from \$600M in 2003

- Where we stand today, 95% of revenues are still driven by print directories, but user fragmentation will threaten long-term margins



Kelsey forecasts a 60% increase in Digital revenues (IYP, Local Search and Wireless-related activity)

Current Directories Landscape

Directory growth has slowed. The economic downturn may have masked a shift of advertising dollars from incumbent to independent publishers

Challenges

Slowing incumbent advertising revenues

- Independents taking share
- Competitive marketplace impacting historic monopoly pricing power
- Nature of business (12-month ad cycle) will cause sector to lag in ad recovery

Certain headings reallocating dollars online and B2B shifting

- Travel dollars moving to online platforms

Perception that Internet will result in large share loss

- Google/Yahoo! local
- Increasing broadband penetration
- Margin erosion from traffic deals

Opportunities

Large, independent publishers are growing

- Same store growth in excess of 10%+
- Margins improving (30%+)
- Stealing market share from incumbents

Print publishers currently own 70% of on-line directory revenues

Print usage stable, online transition may take a while

Incumbents willingness to compete outside markets (Verizon)

Better relative growth comparisons as prospects for other media have slowed

Incumbent, Independent and Internet Directories

Incumbents	Independents	Internet
<p>Pros</p> <ul style="list-style-type: none"> • Established customer base • Dominant market position, typically greater than 80% • Invoicing and customer contact through existing telephone bill • Large distribution more attractive to national advertising customers • Ability to charge premium advertising rates • Limited bad debt 	<p>Pros</p> <ul style="list-style-type: none"> • Core focus on advertising • Growth potential through geographic expansion, niche directories and increased circulation (stealing share) • Higher growth on lower base of revenue • Lower ad rates than incumbents, creating ability for price increases as distribution broadens • Low product differentiation 	<p>Pros</p> <ul style="list-style-type: none"> • Low operational costs • Dynamic - can be updated continuously to reflect changing advertisers information • Ability to geographically target end-users based on connection location • Offer wider range of advertising and services than print alternatives • Potential for wireless deployment
<p>Cons</p> <ul style="list-style-type: none"> • Large organizations with limited top-line growth potential • Non-core component of larger telco enterprises • Increasing M&A activity has caused incumbents' brand strength to diminish 	<p>Cons</p> <ul style="list-style-type: none"> • Incumbents have stronger branding • Introduction of new directories is expensive and requires significant up-front investment to market and brand • Online - Incumbents have the largest existing user bases 	<p>Cons</p> <ul style="list-style-type: none"> • High traffic and marketing costs • Technology - "always on" connections expected to increase consumer usage but are not currently widely deployed • Phone book still easier • Uncertainty surrounding value of online branding and value to local ad base



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By Peter Broadbent
CEO
Wahlstrom Group



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National Landscape

- Channel that has been for some time now facing the changes in media distribution:
 - *intra*Media competition
 - *inter*Media competition
- Further complicated by changes in retail:
 - Distribution strategies and funding (Co-op)
 - Procurement involvement in Advertising



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Retail Environment

- Retail funding
 - Media dollars shifting locally to distribution
 - Local planning and execution
 - Pressures on technology
 - More sophisticated systems / planning
 - Closer to point of sale – strength of medium



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*intra*Media Environment

- Consolidation
- Circulation



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*intra*Media Environment

- Consolidation
 - Opportunities:
 - Deeper client-media relationships
 - More efficient planning/execution
 - Technology as an enabler
 - Threats stem from any decline in investments:
 - Staff
 - Technologies



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*intra*Media Environment

- Consolidation
- Circulation
 - Increasing alternatives (core + companion)
 - Reach objectives require more titles
 - Seniority and pagination pressures
 - Outcomes:
 - Top titles retain share
 - Middle to low tiers face pricing pressure
 - Performance based planning



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- Perception v. Reality
 - Top National Headings by Revenue
 - Insurance
 - Storage
 - Physicians
 - Cellular Phones
 - Movers
 - Plumbers



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Media used prior to purchase:

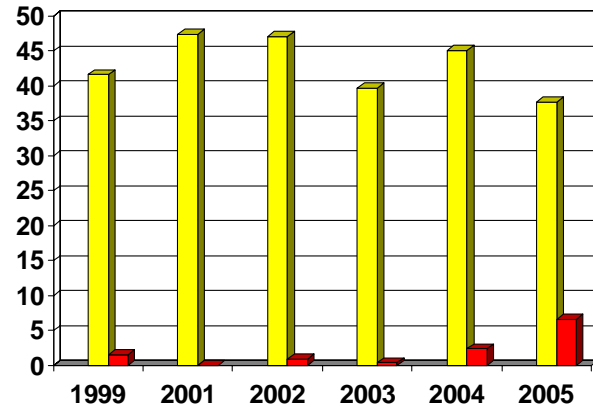


%Used YP's

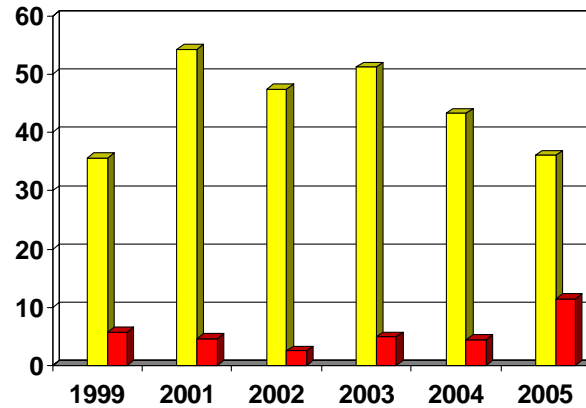


%Used Internet

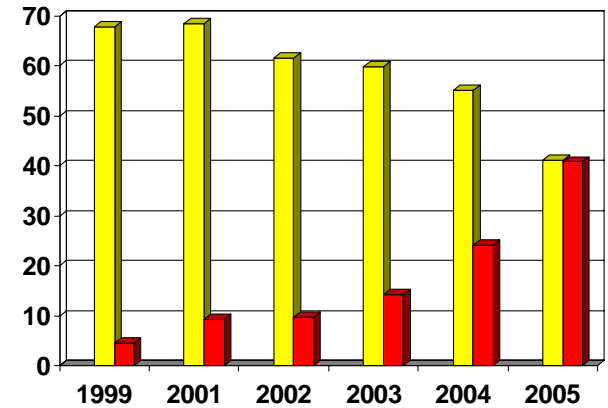
PLUMBERS



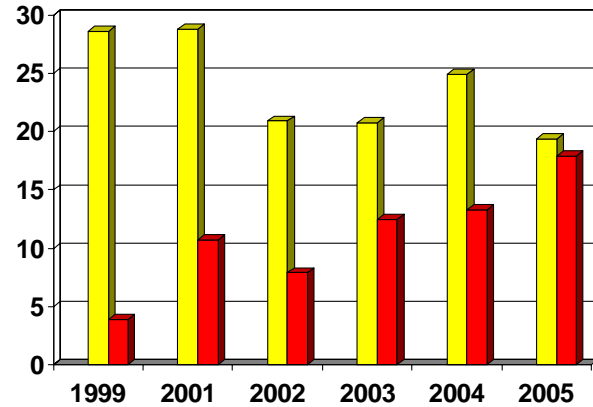
STORAGE



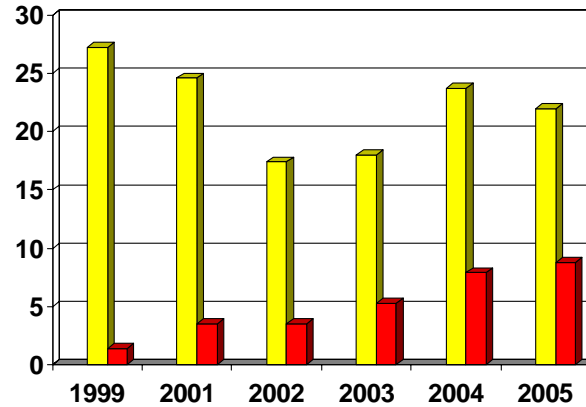
MOVERS



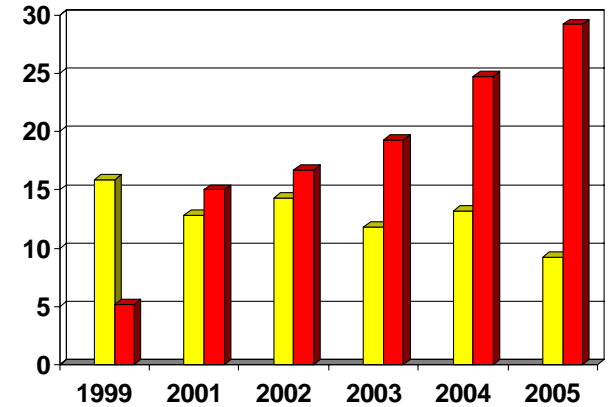
INSURANCE



PHYSICIANS



CELLULAR PHONES



Source: TNS Media Impact Study 2005

#YP Purchasers **+16%**

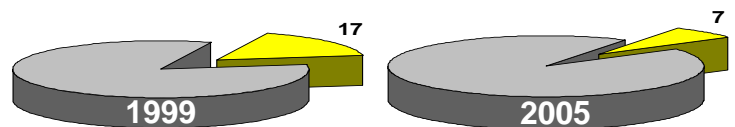
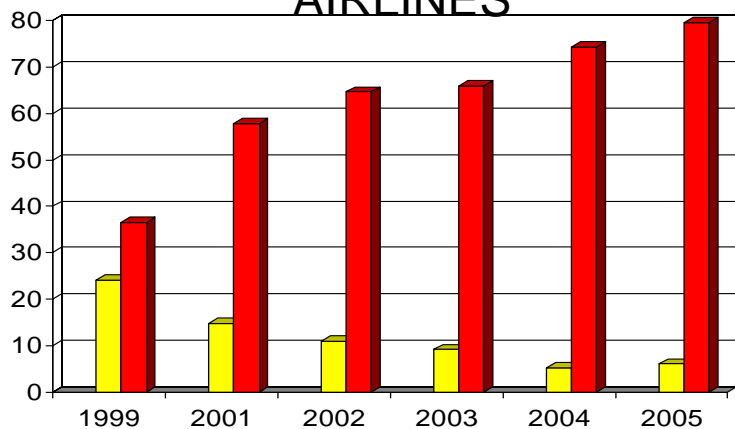
- Perception v. Reality
 - Highest On-line categories
 - Airlines
 - Hotels
 - Books
 - Internet Products & Services



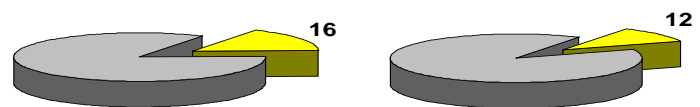
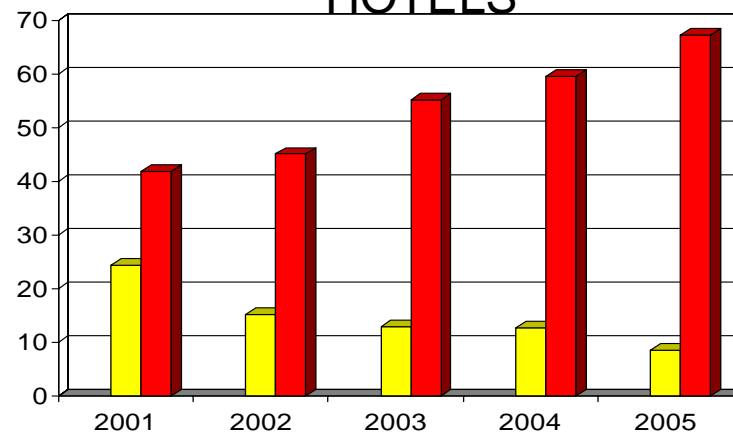
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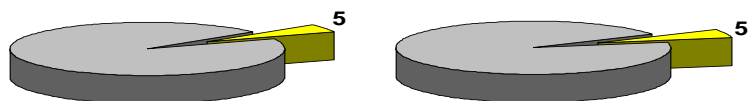
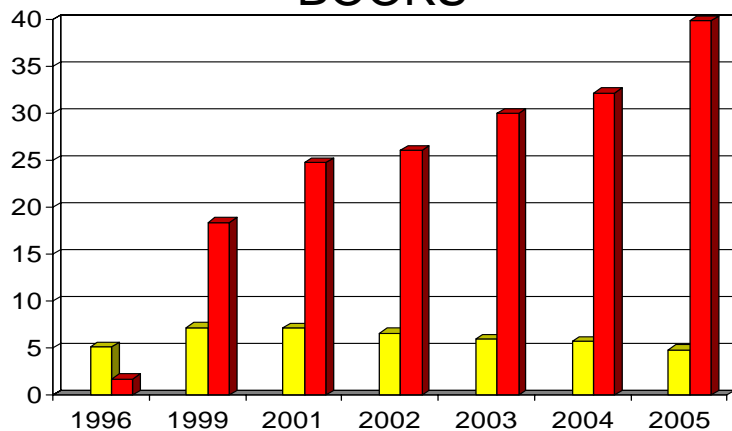
AIRLINES



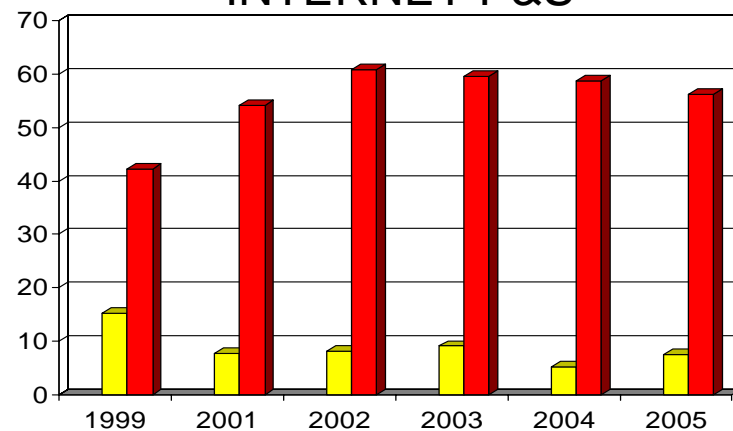
HOTELS



BOOKS



INTERNET P&S



*inter*Media

- Perception v. Reality
- Innovation and repositioning
 - Technology
 - Lead generation
 - Our audience: CMO, CFO or the VP Sales?
- Proof of performance (ROMO)



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National Landscape

- Bellwether of things to come:
 - Pressure on Research / Testing and proof of performance (in collaboration w/other media)
 - Innovation in media planning – across deliverables:
 - X-media
 - X-distribution



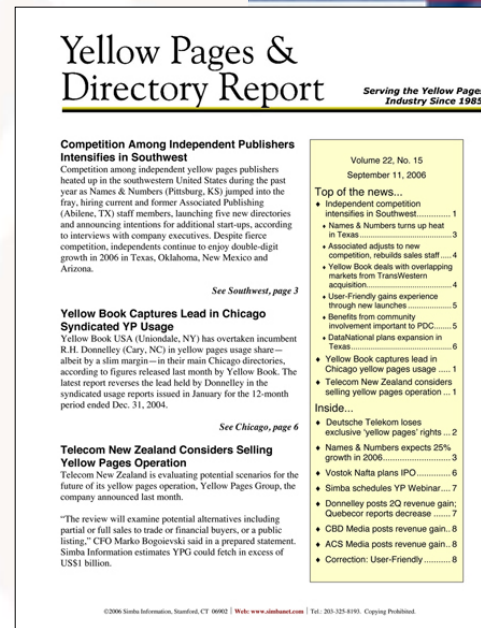
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What Makes Simba's Data Unique?

- The Yellow Pages Group – a team of veteran, industry journalist
- Independent of any vested interest within the industry.
- *Yellow Pages & Directory Report*
- Research databank of 19 years of independent information for analysis and projections



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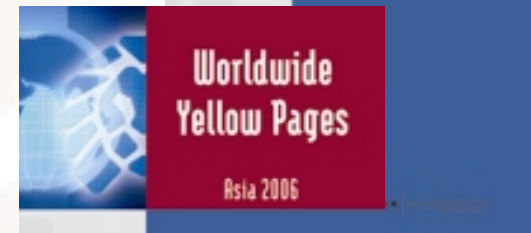
Simba's Methodology

Primary

- Interviews with key executives
- Current and archived content from Simba's original, targeted research reports
- *Yellow Pages & Directory Report*

Secondary

- Annual reports, SEC filings
- Financial analysts
- Industry associations and Conferences



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Questions?

Thank you for joining us for **2007 U.S. Yellow Pages Market Outlook: Measuring the Health of the Industry**

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