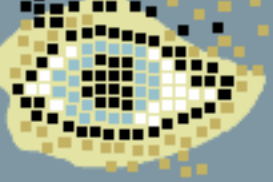


ingenta

# What drives mergers and acquisitions in the scholarly publishing industry?

Mark Rowse  
CEO, Ingenta PLC

Fiesole 2003



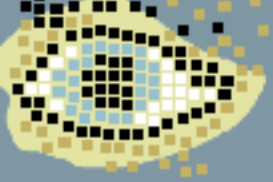
## Why make acquisitions? - a trade buyer's view

### Tactical

- Add target's sales
- Eliminate duplicated costs
  - Increase profits

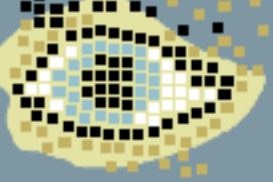
### Strategic

- Increase market share
- Reduce competition
  - Raise prices
  - Increase profits



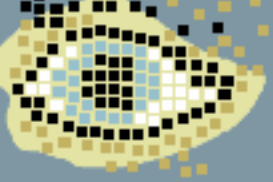
## Why make acquisitions? - a financial buyer's view

- Cost of investment
- Likely profit on sale
- Resulting return on investment (ROI)



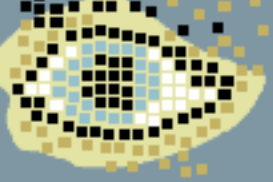
## Trade buyer – factors in evaluation of acquisition of a journals publisher

- Will it enhance my list in a subject area?
- Can I raise prices?
- Can I eliminate duplicated costs?
- What will my investors' reaction be?
- How much should I be prepared to pay?



## How to evaluate acquisition price - a trade buyer's view

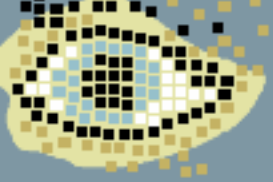
- Price as a multiple of enhanced earnings
- Price relative to assets acquired
- Effect of accounting policy changes
- Net present value of future earnings
- Effect on investor sentiment



## Example: trade buyer price/earnings analysis

	Acquirer	Target	Combination
Sales	\$500m	\$100m	\$600m
Additional sales/margin improvement			\$15m
Cost savings			\$10m
Net profit	\$75m	\$15m	<u>\$90m</u>
			<u>\$115m</u>
Earnings multiple	10 x		10 x
Value	\$750m		\$1150m

Conclusion: could pay up to \$400m



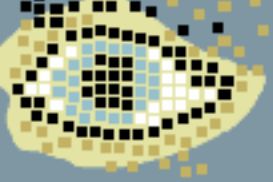
## Financial buyer – factors in evaluation of acquisition of a journals publisher

- How much debt can I raise to finance the deal?
- What is the free cash flow?
- What peripheral assets can I sell off?
- Would new management improve performance?
- Are there other targets that would enhance value?
- What do I think I can sell for in 3-5 years' time?

## Example: financial buyer ROI analysis

Target	Year 0	Year 1	Year 2	Year 3
Sales	\$100m	\$103m	\$106m	\$110m
Cost savings/margin improvements	-	\$5m	\$5m	\$6m
EBITDA	\$25m	\$33m	\$36m	\$41m
Depreciation/Amortisation	<u>\$(10)m</u>	<u>\$(10)m</u>	<u>\$(10)m</u>	<u>\$(10)m</u>
Net profit	<u>\$15m</u>	<u>\$23m</u>	<u>\$26m</u>	<u>\$31m</u>
Asset disposals	-	\$30m	\$30m	\$30m
Free cash flow	\$25m	\$63m	\$66m	\$71m
Acquisition cost				
• Equity	\$200m	\$200m	\$200m	\$200m
• Debt	<u>\$200m</u>	<u>\$137m</u>	<u>\$71m</u>	=
Total	<u>\$400m</u>	<u>\$337m</u>	<u>\$271m</u>	<u>\$200m</u>
Sale at 10 x earnings				\$310m
Profit on sale				\$110m
Return on Investment 55% (15% per annum compound), even though business sold for less than acquisition cost				

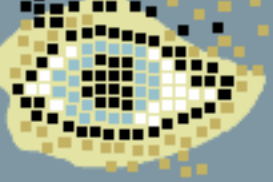




## Evaluation of ROI by financial buyer

Purchase at	Sale at \$310m creates annual return of
\$400m	15%
\$425m	12%
\$450m	9%

Conclusion: could pay at least \$50m more than trade buyer for the same business



## If owning journals is such a good thing, why would anybody sell?

### Strategic repositioning into other markets

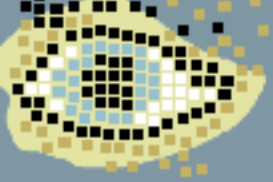
- eg Bertelsmann/Springer; Wolters Kluwer/KAP

### Society pressures

- costs of administering self-publishing
- financial injection relieves pressure elsewhere

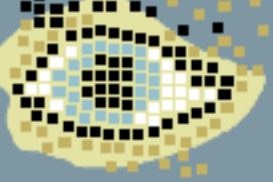
### Different industry assessment?

- days of commercial journal publishing numbered
- library customers and academics in open revolt
- get out while the going's good



## How do financial investors see the scholarly publishing market?

- Stable:** “little exposure to cyclical demand”  
(Investec on T&F July 03)
- Growing:** “fastest growing media sub-sector”  
(Morgan Stanley Sept 02)
- High margin:** “just because a journal is expensive doesn’t mean it is more likely to be cut”  
(Morgan Stanley Sept 02)
- Customer lock-in:** “ ‘need-to-know’ proprietary information”  
(DKW on Wolters Kluwer Feb 02)
- Concentrated:** “larger players can bundle their journals into a single ‘product’ that becomes core to a library”  
(Morgan Stanley Sept 02)



## And the prospects for an alternative model emerging?

“The nature of the scientific publishing industry will not change any time soon, in our view, despite the attempts of organisations such as SPARC to encourage academics to publish their research directly on the Internet.....”

“.....the barriers to entry enjoyed by incumbent journals are just too high.....”

**(Morgan Stanley Sept 02)**