

## Yellow Media Inc.

### Company Update

## LesPAC Sold For \$72.5 Mln As Vertical Media Platform Contracts Further To Reduce Debt

YLO (T)	\$0.34
Stock Rating:	Underperform (Unchanged)
Target:	\$0.25 (Unchanged)
Risk Rating:	Speculative (Unchanged)
Est. Total Return	-26.5%

#### Stock Data:

52-week High-Low (Canada)	\$6.46 - \$0.12
52-week High-Low (U.S.)	NA
Bloomberg/Reuters: Canada	YLO CN / YLO.TO
Bloomberg/Reuters: U.S.	NA

(FYE Dec. 31)	2010a	2011e	2012e
Revenue (mln)	\$1 401.1	\$1 322.5	\$1 177.7
EBITDA (mln)	\$805.6	\$692.4	\$606.9
FD EPS ex-items	\$0.58	\$0.18	\$0.42
EV/EBITDA*	4.4	3.6	3.7
Free Cash (mln)	\$554.8	\$377.7	\$243.1
Dividend	\$0.80	\$0.00	\$0.00
Div/Yield	235.3%	0.0%	0.0%

\*Assumes Pref Series 1 conversion to stock in 2012.

#### Financial Data (as at September 30, 2011):

Shares Outstanding (mln)	520.4
Float (mln)	520.4
Market Capitalization (mln)	\$176.9
Net Debt (mln)	\$1 840.9
Preferred Shares Series 1 & 2 (mln)	\$398.4
Pref Shares + NCI (3/5/7) (mln)	\$328.9
Shareholders' Equity (mln)	\$1 793.8
Net Debt to Capital	51.3%
Book Value/Price to BV	\$4.08/0.1x
ROE 2011E	NM
Dividend/Yield	Nil/Nil

**Industry Rating (Publishing): Underweight**  
(NBF Economics & Strategy Group)

#### Company Profile:

Yellow Media Inc. is the largest directories publisher in Canada. It sold the majority of its Vertical Media platform in a transaction announced on March 25, 2011 which closed on July 28.

YLO converted to a corporation on Nov. 1, 2010, with its dividend at \$0.65 (down from \$0.80) effective Jan. 1, 2011. On Aug. 4, 2011, it cut its annual dividend to \$0.15/share and on Sep. 28, 2011 reduced it to zero.

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## HIGHLIGHTS

- LesPAC sold for net proceeds of \$70 million.**  
 YLO announced today that it sold all the assets of LesPAC (bought for \$35.8 million total in two tranches during Q2/07 & Q2/09) for \$72.5 million. Net proceeds of \$70 million will be used for reinvestment in the core Directories platform (\$25 million) and the rest to reduce the company's Term Facility by \$45 million which will have no effect on the schedule of quarterly payments of \$25 million on the latter starting next year per September amendments to the company's credit agreement. This deal follows the divestiture in late July of YLO's stake in Dealer.com and Trader's automotive assets, with Trader's real estate, employment, and generalist assets all that now remain of Vertical Media and unlikely to be sold in the near term given its business-to-consumer focus.
- Deal multiple at or above 10x for contracting business.**  
 YLO noted that LesPAC revenues were \$12.7 million in 2010. These, however, were declining in 2011 in the face of competition from Kijiji which entered Quebec in recent quarters and added to pressures in a sector evolving from paid to free listings. We assume a 10x multiple based on 2010 results, but one that's likely higher using lower 2011E. We've adjusted our model for the sale, with our 2012 revenue estimate falling by \$11 million and EBITDA by \$5.8 million. Though LesPAC is a consumer-to-consumer platform, the pressure it began to feel this year speaks to the competitive dynamic YLO is also poised to increasingly face with its core Directories platform as it seeks to transition the latter from a mostly print-based story to one with a greater online presence.
- Maintain Underperform and \$0.25 target.**

## Stock Performance (source: Thomson Reuters)



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