

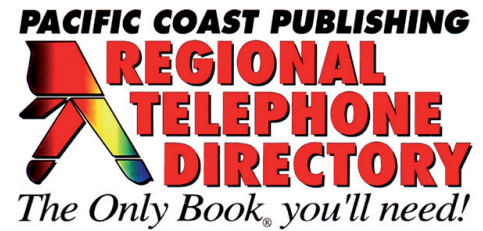


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## Background

In early 1998, Imperial Capital identified the independent yellow pages publishing sector as an industry subsector with above average economics and commenced an industry initiative. As part of the industry initiative, we identified a CEO Partner, Douglas McIntyre, who was the former CEO of Bell Canada's Tele-Direct International operation, a yellow pages company publishing in international markets. As part of the industry initiative, we contacted approximately 65 companies in the sector and short-listed 5 potential acquisition candidates. Of the 5 candidates, one was selected as our main target for acquisition. We contacted the shareholders of Pacific Coast Publishing ("PCP" or the "Company") of Tacoma, Washington, on a proprietary basis and commenced exclusive negotiations with the shareholders.

## Investment Thesis

Imperial Capital's investment thesis was to consolidate the independent yellow pages directory industry and form a national integrated print and internet yellow pages directory company with a centralized digital production centre and national sales system.

## The Company

PCP was the ninth largest independent yellow pages publisher in North America. YPTel Corporation was a Canadian holding company established by Imperial Capital to acquire the assets of PCP. At the time of acquisition, PCP marketed, produced and distributed 16 directories in four Western states: Washington, Oregon, Utah and Arizona. The Company generated revenue of approximately US\$33 million and EBITDA of approximately US\$7 million at the time of acquisition. The Company had a 3-year compound annual growth rate in revenue and EBITDA of 28.9% and 38.1%, respectively. Prior to the

consummation of the transaction, the company's lenders contacted an industry acquirer and introduced them to the vendors in an effort to make the process competitive. Despite the last minute entrance of a competing bidder, we were able to acquire the company at a price which was approximately 5% less than the strategic bidder's valuation. The shareholders later disclosed that the reason for selecting Imperial Capital was due to the Investment Team's persistence, goal of utilizing the company as a platform for further consolidation, and for the compelling vision for growing this company that was articulated to the shareholders during the negotiation process. In short, now that their "baby" had grown up they wanted to ensure that she was "married off" to the right partner.

## Value Creation

### *Board of Directors & Strategic Planning*

Operating as a private company, PCP did not have a board of directors in place prior to its acquisition by

## CASE HIGHLIGHTS

- Accelerated growth by entering into larger Tier 1 US directory markets
- Revenue enhancement by changing credit policy for customers with good credit
- Implemented new tax strategy to significantly improve cash flow
- Orchestrated unique merger with NYSE listed company to form WorldPages.com

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Imperial Capital. Accordingly, a board of directors was assembled that consisted of two representatives from Imperial Capital, one of our investment advisory committee members, and two experienced yellow page industry executives.

As part of the CEO Partner's strategic assessment of the business, he identified an opportunity to significantly increase revenues by providing extended payment terms to customers with excellent credit risk. This strategy was put forth as part of the strategic planning process and was approved by the board. The strategy had the effect of increasing revenues by attracting companies that may not otherwise advertise in the directory due to the quantum of upfront cash payments required as per the standard contract terms.

As part of the growth plan, management and the CEO Partner had identified Seattle, Washington and Portland, Oregon as markets with exciting growth potential. Those markets were larger than markets the Company had previously attempted to penetrate through a greenfield operation, but also had the potential to be the most lucrative for the Company. After assessing the risks and opportunities associated with the new markets, the board of directors approved the strategy. Despite some initial difficulties in penetrating the markets, these markets quickly became the largest directory markets served by the Company.

### *Tax Structuring*

As part of our efforts to acquire companies in the sector, we investigated a number of potential acquisition opportunities. As a result of reviewing one of these opportunities, Imperial Capital identified a tax planning strategy in the yellow pages industry that allowed companies to recognize revenue on a cash basis as opposed to an accrual basis. Since

typical payment terms in the yellow pages industry are 3 to 12 months, the different revenue recognition policy meant that PCP could recognize far less taxable income than the Company had traditionally been recognizing. Accordingly, the tax strategy was instituted and the Company was able to reduce its income tax obligations. This provided the Company with incremental cash flow to repay debt and thereby create equity value.

### *Creative Liquidity Event*

During the course of the investment in PCP, Imperial Capital decided to test the capital markets to see if the business could be taken public through an Initial Public Offering ("IPO"). The purpose of the IPO was to raise additional funds to allow management to undertake acquisition and internal growth opportunities. During the roadshow for the initial public offering, it was determined that the valuation range was inadequate. Accordingly, Imperial Capital decided to terminate the IPO and focus on growing the business by other means.

Representatives of Imperial Capital then approached other directory publishers in the US about the possibility of acquiring or merging with them. One of the entities approached was a company which traded on the New York Stock Exchange called Advanced Communications Group Inc. ("ACG"). ACG was a competitive local exchange carrier ("CLEC") that owned the eight largest independent yellow pages publisher in the US. ACG had been insufficiently capitalized as a CLEC and was leveraging its directory business to invest in its telecommunications operations. ACG was also running out of room on its credit facility and was not able to raise additional capital. Accordingly, Imperial Capital approached the board of directors with the idea of selling the telecommunications assets and merging the respective yellow pages companies together with an internet

yellow pages group and rebranding the entire organization WorldPages.com. ACG's board approved the strategy and the management of ACG spent the next nine months obtaining regulatory approvals, divesting the telecommunications assets, and obtaining shareholder approvals for the transaction. In early 2000, the merger transactions were completed and ACG had changed its name to WorldPages.com Inc., thereby achieving the vision laid out for the board of directors nine months earlier.

### **Conclusion**

As a result of the various value creation strategies, our investors original investment of US\$13.5 million was valued at US\$247.5 million within 18 months of acquiring PCP.

During our ownership, PCP transitioned from:

- 9th largest to 4th largest independent yellow page publisher;
- Print publisher to an integrated print and internet publisher;
- Multiple brands to one brand under the WorldPages banner; and
- Private company to public company.

This was accomplished while maintaining the historic high quality levels associated with PCP's directories.