

Internet Retail 1st Half 2009 M&A Trends

Key Highlights

- M&A deals announced in the internet retail sector has been strong over the past 10 quarters, but has recently fallen off in Q2-09.
- Aggregate reported deal size for transactions announced in the first half of 2009 (\$6.4 Billion) has increased four fold over aggregate reported deal value in the first half of FY 2008 (\$1.3 Billion). The increase in FY 2009 is due primarily to two mega-deals as highlighted below.
- Reported US transaction volume in the first half of 2009 (20) is down compared to the first half of 2008 (30). International transactions in the segment, however, have remained stable from 22 in the first half of 2008 to 21 in the first half of 2009. We believe that the drop off in transaction volume in Q2-09 is due to conservatism resulting from the poor economy and the continuing lack of available leverage.
- Average deal size in 2008 is off significantly from 2007. This is due primarily to the Tradus Plc deal in 2007 worth approximately \$1.7 Billion. Excluding this deal, average deal size in 2008 shows improvement over FY 2007.

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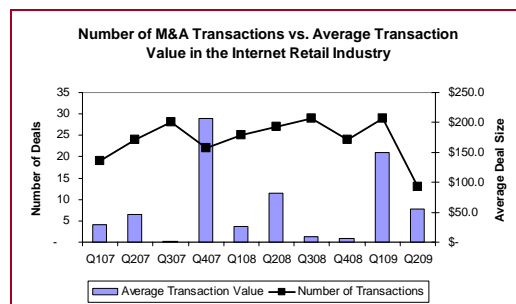
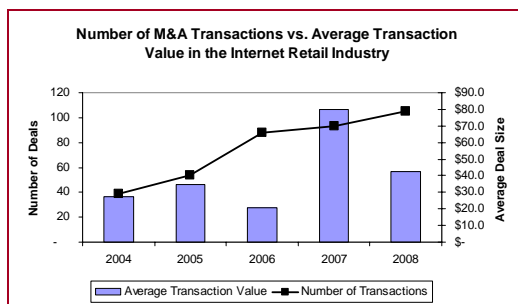
Sector Highlights

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Source: Capital IQ

*Note: The \$4.7 Billion NextRx, Inc. transaction has been excluded from Q209 in the Quarterly transaction graph above, as it drastically alters average transaction size in the quarter.

M&A Internet Retail Market Overview

The first half of 2009 marked a strong start to the year for M&A in the internet retail segment. Two large deals, Live Nation acquiring Ticketmaster and Express Scripts acquiring NextRx, equaling a combined \$6.05 Billion, account for the vast majority of aggregate deal size in the first half of the year. Taking this into account, it appears that while total transaction value has increased as a result of these two deals, overall deal activity remains relatively stable. While we expect transaction volume to remain steady in the coming quarters, revenue and EBITDA transaction multiples are expected to remain below those of prior years.

The overall stability of M&A deals within the internet retail sector is indicative of the sector's performance over the past five years. From 2004 through 2008, compound annual growth (CAGR) in deal volume was almost 22%, while CAGR in total transaction value was 28.1%. 2004 marked the bottom of the market for the overall internet industry, with the bursting of the internet bubble only a few years prior. While transaction multiples are currently below historical norms, we expect them to rebound as the economy improves.

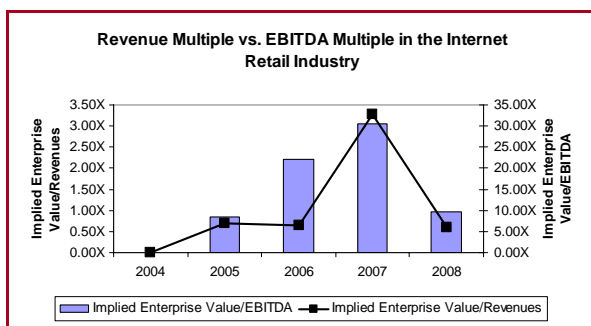
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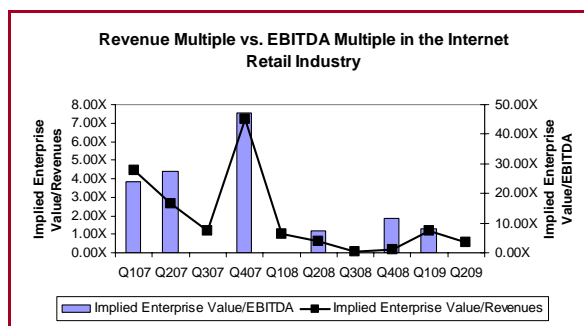
Valuation Analysis

M&A transactions in the Internet Retail industry have grown over the past several years. Deal valuations, however, have decreased markedly since their 5-year high in 2007. The second half of 2008 was a very difficult period, as it signaled the sharp deterioration in the overall national economy. With credit tightening during this period, deal valuations suffered.

The first half of 2009 has seen a slight rebound in deal valuations, but overall EBITDA and Revenue multiples are down significantly from levels seen in 2007. We do not expect these multiples to return to 2007 levels even as the overall economy recovers.



Source: Capital IQ



Transaction Analysis

Significant Deals in the 1 st Half of 2009			
Announcement Date	Target	Buyer	Total Transaction Value (\$MM)
4/9/2009	NextRx, Inc.	Express Scripts, Inc.	\$4,674.7
2/10/2009	Ticketmaster Entertainment, Inc.	Live Nation, Inc.	\$1,368.5
4/5/2009	Circuit City Stores, Inc.	Systemax, Inc.	\$206.3
3/2/2009	InterTan Canada, Ltd.	Bell Canada International, Inc.	\$90.7
3/31/2009	Kaboose, Inc., Internet Assets	Disney Online	\$18.5
Total Transaction Value (Significant Deals)			\$6,358.7

Source: Capital IQ

*Note: these five deals represent the vast majority of total aggregate transaction value in the 1st half of 2009. The other 36 deals in the period are either unreported, or are very small. Please see page four for the details.

NextRx, Inc. – Express Scripts, Inc.

In April 2009, Wellpoint, Inc. agreed to sell their NextRx subsidiaries to Express Scripts, Inc. for a reported \$4.64 Billion. The deal is part of a larger plan by Wellpoint to shed assets to shore up their balance sheet, as well as provide cash for stock repurchase. NextRx is a pharmacy benefit manager (PBM) that offers services to over 32 million people through customers ranging from HMO's, employer groups, state government employee benefit plans, and managed care companies.

Through the deal, Express Scripts will receive, in addition to NextRx, a future tax benefit based on the structure of the deal. In addition, the transaction includes a contract whereby Express Scripts will provide administrative services to Wellpoint over the next 10 years.

Ticketmaster Entertainment, Inc. – Live Nation, Inc.

In February 2009, Ticketmaster reached an agreement with Live Nation by which both companies will own approximately half of the new company, Live Nation Entertainment. The total deal value is reported at \$1.37 Billion. Ticketmaster will operate as an indirect, wholly owned subsidiary of Live Nation. Both parties cite current macro economic conditions, stronger revenue streams, and larger growth potential as reasons for the merger.

The merger, however, still faces several hurdles as the companies must face scrutiny from the US Justice Department concerning competitive practices. In addition, the merger has recently been referred to the UK's Competition Commission by the Office of Fair Trade for antitrust concern. Both regulators are not expected to make rulings on the deal until later in the year.

Circuit City Stores, Inc. – Systemax, Inc.

In November 2008, Circuit City filed a voluntary petition for reorganization under Chapter 11. To close bankruptcy proceedings, in April 2009 Circuit City reached an agreement with Systemax, Inc. in which Systemax will acquire substantially all of the remaining assets of Circuit City including domain names, trade marks, trade names, customer lists, and other intangible assets for a reported \$206.3MM. As part of the deal, shareholders will receive \$14MM in cash consideration and Systemax will acquire Circuit City's debt obligations. In addition to cash consideration, the transaction also included a share of future revenue generated using these assets over a 30-month period.

In May 2009, shortly after closing the deal, Systemax re-launched the Circuit City website featuring many of the same products formerly sold in Circuit City Stores.

InterTan Canada, Ltd. – Bell Canada International, Inc.

As part of bankruptcy proceedings, in March 2009 Circuit City reached an agreement to sell the company's Canadian operations, InterTan Canada, to telecommunications company, Bell Canada, for a reported \$90.7MM. The purchase price roughly approximates the inventory value of InterTan plus adjustments for working capital. InterTAN Canada, doing business as The Source, will continue to operate approximately 750 retail locations across Canada selling Bell Canada products in addition to their traditional electronics product lines.

Kaboose, Inc., Internet Assets – Disney Online

In March 2009, Disney Online, a publishing business unit of Disney Interactive Media Group, acquired Canada-based Kaboose, Inc., an online resource for parents and young children, for a reported \$18.4MM. As part of the transaction, Disney will acquire several online properties owned by Kaboose.

At the same time, Kaboose sold Bounty, Ltd., an operating subsidiary, to Barclays Private Equity for a reported \$77.5MM.

1st Half 2009 Internet Retail Transactions

US M&A Transactions				
Announcement Date	Target	Buyer	Transaction Status	Total Transaction Value (\$mm)
01/30/2009	PoshTots, Inc.	Andrea Edmonds	Effective	0.74
01/31/2009	Performance Yacht.com, Inc.	Fawcett Boat Supplies, Inc.	Closed	-
01/31/2009	Shoes.com, Inc.	Brown Shoe Co. Inc.	Closed	3.6
02/03/2009	Pet Planet RX Limited	Not Reported	Closed	-
02/10/2009	Aeon Holdings, Inc.	Aeon Holdings, Inc.	Closed	-
02/10/2009	Novoni Jewelry Inc.	Harold Schaffrick and Mark Neid	Closed	-
02/10/2009	Ticketmaster Entertainment, Inc.	Live Nation, Inc.	Announced	1,368.49
02/12/2009	BabyUniverse, Inc. and ePregnancy and eToys, Inc.	Toys "R" Us Inc.	Closed	-
02/17/2009	Swapagift.com	GiftCards.com, LLC	Closed	-
02/23/2009	Marketing & Money Management LLC	Secured Digital Storage Corp.	Closed	-
03/10/2009	Hobby-Lobby International, Inc.	Mark A. Cleveland	Closed	-
03/31/2009	Kaboose, Inc., Internet Assets	Disney Online	Closed	18.52
04/05/2009	Circuit City Stores Inc., Substantially All Assets	Systemax Inc.	Closed	206.27
04/09/2009	NextRx, Inc.	Express Scripts Inc.	Announced	4,674.7
04/15/2009	Denny Electra Vision Co., Inc.	imageTech Marketing	Closed	-
04/15/2009	Eventphotomarket Com, Inc.	imageTech Marketing	Closed	-
04/20/2009	Pashminadepot.com, Inc.	Albury Investments Limited	Closed	0.18
04/30/2009	Beltower Entertainment Corp.	Donald K. Bell	Closed	-
04/30/2009	GameZnFix Inc. (OTCBB:GMZN)	TBC Today, Inc.	Announced	-
06/01/2009	Shopflick, Inc.	Sugar, Inc.	Closed	-

International M&A Transactions				
Announcement Date	Target	Buyer	Transaction Status	Total Transaction Value (\$mm)
01/15/2009	Promodoeswork.com, Inc.	Changda International Holdings, Inc.	Closed	0.21
01/20/2009	Chapitre.com SA	DirectGroup France	Closed	-
01/22/2009	Elittera AS	Cappelen Damm AS	Closed	-
01/22/2009	limango GmbH	Otto (GmbH & Co KG)	Closed	-
01/23/2009	DIS B2B Int'l (HK) Limited	DIS Technology Holdings Bhd	Closed	0.001
01/26/2009	redcoon GmbH	Hannes Majdic	Closed	-
01/29/2009	Shufunotomo-Direct Co., Ltd.	Jalux Inc.	Effective	1.63
01/30/2009	FashionFriends AG	Tamedia AG	Closed	-
02/05/2009	Herrenkontor GmbH	Rudolf Wöhrl AG	Closed	-
02/09/2009	ID Shopping	Global Technologies	Closed	-
02/09/2009	Webogram Sverige AB	GiftToday Sweden AB	Closed	0.219
02/10/2009	Netrauta Finland Oy	Group of Private Investors	Closed	-
03/02/2009	InterTAN Canada, Ltd.	Bell Canada International Inc.	Closed	90.68
03/02/2009	Zavvi Entertainment Group	The Hut Group Ltd.	Closed	-
03/26/2009	Yume no Machi Souzou Iinkai Co., Ltd. (OSE:2484)	Culture Convenience Club Co., Ltd.	Announced	13.11
03/27/2009	Mail Order Express Limited	Dominoes of Leicester Ltd.	Closed	-
04/15/2009	Sydney Drug Stores Pty Ltd.	RX Direct Pty Ltd.	Announced	14.42
04/24/2009	eMAG	Asesoft Distribution Srl	Closed	-
04/24/2009	bol.com b.v.	Cyrte Investments B.V.	Announced	-
05/20/2009	Beads Direct Limited	John Leach and Pam Leach	Closed	-
06/26/2009	Fueps S.p.A.	DADA SpA	Announced	1.91

Source: Capital IQ

About Tully & Holland

INVESTMENT BANKING SOLUTIONS FOR CONSUMER PRODUCT COMPANIES

Tully & Holland, Inc. is a leading US investment bank that provides sophisticated corporate finance advisory services to consumer product companies with special emphasis on food companies, multi-channel marketers, consumer product manufacturers/distributors and retailers. Tully & Holland's Managing Directors have a combination of deep industry knowledge and sophisticated financial experience enabling them to craft innovative solutions for each client's needs. Founded in 1992, Tully & Holland's transaction success is facilitated by long-term relationships with financial and strategic buyers around the world.

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