



MEDIA

# Turning the pages

When Marc Tellier took the helm at Yellow Pages, it seemed like an easy gig. Now he's racing to rescue the old phone-book firm by dragging it into the digital age.

MARC TELLIER, son of Canadian business legend Paul Tellier, was just 35 when he led Yellow Pages Group Co. (now part of Yellow Media Inc.) through a \$1-billion income trust offering in 2003, then the largest deal of its kind. Eager investors were sold on the Bell Canada phone directory publisher's reputation as a stable, cash-producing business: everyone from local plumbers to law firms bought ads in the thick books, which have been landing on doorsteps with a thud since 1908. An ambitious young CEO and perhaps eager to follow in his father's footsteps, Tellier suggested to a reporter a few months after the IPO that running the old-media company was "almost too easy," hinting he may soon be in the market for a bigger challenge.

He didn't have to look very far. While Can-

adians continue to let their "fingers do the walking," these days their digits are increasingly finding their way to computer keyboards and mobile phones. And that's a big problem for Yellow Media, since 75 per cent of its directory revenue comes from selling ads on tissue-thin pieces of paper. It's now Tellier's job to figure out a way to drag the company, with a client base of 365,000 mostly small- and medium-sized businesses, into the digital age—a mission emphasized by last year's redesign of the Yellow Pages logo, which no longer shows a pair of fingers walking across an open book, but instead leaves them dangling in mid-air.

Which, coincidentally, is how shareholders probably feel. Yellow Media's stock has plummeted nearly 65 per cent to just over \$2 since the beginning of the year (its trust units

once traded in the \$15 range). Tellier's transformation plan, meanwhile, is being called into question as directory publishers in other countries wobble on the brink of bankruptcy. "Yellow Pages was once the gatekeeper of information to people's homes," says Neeraj Monga, an analyst at Veritas Investment Research, who dropped coverage of the stock two years ago. "But the Internet completely killed that business model."

But Tellier, now 43, told *Maclean's* that the doom and gloom is overblown. Debt is being whittled down and cash is still flowing into the company's coffers, he says. As a former Bell executive who helped launch the company's broadband Internet service, Tellier is bullish that Yellow Media, with its giant database of local business information, can remain an

important player in the online world. Now he just needs to convince everyone else he's right.

When Tellier took the reins of the directory business back in 2001, his sales team was able to tell customers that 72 per cent of Canadians used a print directory every month (the figure is now 50 per cent). That had allowed the company to continue growing its revenue from print directories for several years even as the Internet was becoming ubiquitous in Canadians' lives.

With few capital costs and a simple business model, Yellow Pages Group also generated a lot of cash. That's what attracted legendary New York buyout firm Kohlberg Kravis Roberts & Co., and the investment arm of the Ontario Teacher's Pension Plan. They bought control of Yellow Pages Group in 2002 in a \$3-billion deal, leaving Bell with a 10 per cent stake and Tellier in charge. They spun it off the following year in one of the most widely anticipated income-trust offerings of the era. Ironically, the deal was touted by some invest-

unless people have specifically requested them. (Canadians are asked to opt out by contacting Yellow Media.) Advertisers, in turn, are taking their money elsewhere, with some U.S. publishers experiencing as much as a 20 per cent drop in sales. Yellow Media, meanwhile, has attempted to offset the trend both by buying up rival publishers of print directories—just last year it paid \$225 million for Vancouver-based Canpages—and diversifying into other businesses, mainly online. In addition to *Yellowpages.ca*, it also owns *Canada411.ca*, bargain-hunting site *RedFlag-Deals.com* and *Canpages.ca*.

Tellier now likes to refer to Yellow Media as one of Canada's biggest Internet companies, and points to the success of France's PagesJaunes, which generates half of its sales online. To get there, Yellow Media launched Yellow Pages 360 Solution earlier this year, which

opening fast enough. Colin Moore, an analyst at Credit Suisse, forecasts Yellow Media's print revenue will decline by nearly 45 per cent by 2014, with growing online sales making up only part of the difference. Monga, meanwhile, is skeptical that Yellow Pages' database of small businesses will be as relevant as Tellier promises in an online world. Addresses

and phone numbers can be swiped from phone books, and small mom-and-pop shops are hardly hidden from public view anymore. "The guys at Google put some cameras on a car and drove it around Toronto for a couple of days and now

have pictures of the entire city," he says.

Yellow Media's troubles have been further exacerbated by its balance sheet, or at least investors' interpretation of it. Years of acquisitions led to the accumulation of \$2.1 billion in debt. By contrast, Yellow Media's market capitalization currently sits at about \$1.1 billion. With investors already spooked by the company's long-term challenges, Yellow Media decided earlier this year to sell its Trader Corp. business, which consists of sales publications and sites like *Autotrader.ca*, for \$745 million to raise cash. But the market barely flinched. Tellier suggests investors are unfairly lumping Yellow Media in with other directory publishers outside Canada that are on the cusp of bankruptcy—many of whom were also bought by private equity firms, but took on heaps more debt. "Unfortunately this industry has been plagued with a number of restructurings, particularly in the U.S.," he says, adding that as much as 20 per cent of the company's shares are now held by short-sellers, who stand to make money when the stock price falls. That may explain whispered rumours last month that the Trader sale was on the rocks (it closed on July 28).

Chris Diceman, a senior vice-president at bond-rating agency DBRS, confirms the company is in no immediate danger of breaching debt covenants. But he says that doesn't mean the long-term outlook is rosy. "We think their strategy appears to be the right one, although there is an execution risk," he says. "I don't know that anybody really knows what it looks like on the other side." Tellier concedes that, despite his best efforts, it may take some time to convince a skeptical market there is a future for a phone book company. "I still haven't reacquired top-line growth," he says. "And until we've done that, people will remain cautious." A once straightforward job has become a lot more complicated. **CHRIS SORENSEN**

## FOR A TIME, YELLOW PAGES WAS TOUTED AS A SAFE PLACE TO PARK MONEY AFTER THE DOT-COM MELTDOWN



**Reboot:** Tellier with Yellow Media's new logo, which no longer has the fingers walking on a book

ment bankers as a safe place for investors to park their money after being burned by the dot-com meltdown a few years earlier. "A lot of really smart people invested in these companies," says Karl Moore, a business professor at McGill University. "Did they hype it? Well, the nature of sales is to overstate things a bit. You have to take it with a grain of salt."

The stacks of dusty directories piled in apartment lobbies across the country tell the tale of what happened next. The books went from being a valuable free service to just another piece of junk mail, albeit one that takes some serious muscle to cart away. Some environmentally minded cities, including San Francisco and Seattle, have even passed bylaws banning the distribution of printed directories

offers small- and medium-sized businesses a one-stop shop of advertising services including print directories placements, inclusion in online and smartphone directories, search engine marketing, search engine optimization and help building websites. The idea is to capitalize on the fact that many small businesses aren't Web-savvy enough to make sure they show up in Google searches and on people's iPhones. (In addition to its own websites, Yellow Media shares its 1.5 million listings with third-party sites, search engines and application developers.) "We believe one of our big competitive advantages is that we already serve most of these people face to face," Tellier says.

But even as online advertising dollars grow, investors are concerned the transition isn't hap-