

## DEX MEDIA: PRIVATE EQUITY BACKS TRANSITION TO INTERNET AGE



Today, Dex Media is a division of R. H. Donnelley, the nation's third-largest yellow pages publisher. Dex is headquartered in Englewood, Colorado and is part of an organization that employs more than 4,000 people in 28 states. Dex began its life in 1995 as the Yellow Pages division of then-Regional Bell Operating Company US West.

### Web-Based Technologies Expand Information Service Offerings

In 2002, Denver-based Qwest Communications (which had acquired US West) was a local phone company that lacked the will and the resources to refurbish its Yellow Pages directory business for the Internet era. With an eye towards the potential of the new medium, two private equity investment firms — The Carlyle Group and Welsh, Carson, Anderson & Stowe — purchased Qwest's Yellow Pages business through the newly-formed company, Dex Media, Inc.

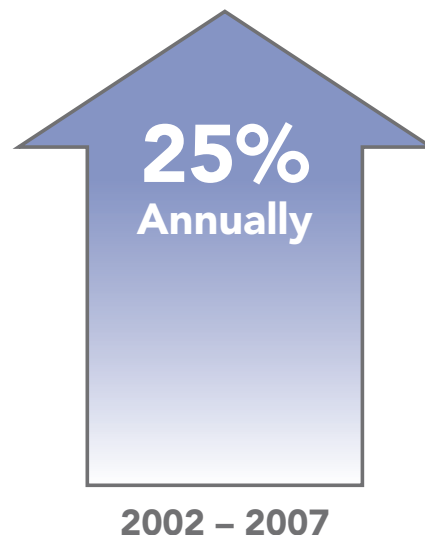
During the next four years, Carlyle and Welsh Carson helped Dex management introduce a series of new products and next-generation information systems. After they took the business public in 2005, putting it on track for future growth, the private equity firms in January 2006 helped negotiate a merger of Dex with R.H. Donnelley. Carlyle and Welsh Carson believed the combination of the \$10 billion Dex with another directories business would yield significant economies of scale and other strategic benefits. The complementary capabilities and limited market overlap position of the two companies strengthened both considerably.

### Capital Investments Improve Operational Systems and Technologies

During their years of ownership, Carlyle and Welsh Carson transformed Dex by strengthening the company's management team and devising a forward-looking strategy to invest in new technologies and create innovative offerings for more than 400,000 small and medium-sized businesses.

Before the two private equity firms purchased its Yellow Pages unit, Qwest invested only about one percent of the unit's revenues on capital expenditures. Under new ownership, Dex's level of capital investment grew to more than twice this level. Early on, Carlyle and Welsh Carson approved a \$100 million project to completely

### Growth in Internet Products Following \$100M R&D Investment



upgrade the company's information technology systems. The two firms also made a series of investments in operational systems to improve Dex's Internet platform and to introduce leading-edge services.

### **Strategic Guidance and Technological Expertise Help Complete Transformation**

Capital alone was not sufficient to solidify Dex as a market leader. Like all print-based publishing businesses, Dex needed a strategy to profit from the migration of its customers to the Internet. Six months after the acquisition, Dex unveiled an upgraded web site and offered all its customers a no-cost duplication of their Yellow Pages ads on the Web. Dex Media dramatically improved its web site design and online search capabilities. It also entered into joint ventures with Google, Yahoo, and other online service providers, offered "value-added" features on the site, provided small business customers with web site design capabilities, and drove "click-throughs" to their sites from major portals.

The final component in Dex's transformation was the introduction of new products in direct response to customer needs. These initiatives included "Dex Plus" (a smaller-sized "companion directory" in major markets) and "Web Clicks" (a package of online referrals from major search engines).

An independent study by the Kelsey Group in 2004 gave DexOnline.com the top rating among all 15 major U.S. business directory sites that were evaluated from a consumer's perspective.

In the fall of 2005, Dex Media went public, trading on the New York Stock Exchange under the symbol DEX. While sales in the legacy print business were flat, the Internet products were growing at rates in excess of 25 percent each year. Other new products introduced under private equity ownership also were beginning to contribute to revenues.

### **Outlook: Continued Changes, Higher Returns**

Today, Dex Media's future is bright. R. H. Donnelley, Dex's parent, has more than 750,000 local and national advertisers in 600-plus directories with a total circulation of 73 million. The people, products and markets gained through the 2006 merger complement the company's long-term business strategy. The company is expected to continue increasing its ad sales and generating strong cash flow.