

Exit Strategies

Determining Value for a Publishing Company

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Many publishers think that their companies have unique characteristics that buyers will value and that, therefore, standard valuation approaches and methods are not applicable. While it is true that each publishing company is unique, buyers use standard valuation approaches to help determine the price they are willing to pay, and the ultimate value of a publishing company can be determined only when the buyer and seller agree on the purchase price.

There is no exact formula for determining the value of a publishing company, but considering certain variables helps sellers and buyers arrive at a value range.

Sellers tend to start out thinking in terms of higher prices than the market is willing to pay. Although the sale of a publishing company is a personal event to the seller, it is a business transaction for the buyer. Remember that a buyer will not overpay for a publishing company. Your expectations need to be based on real valuation approaches.

Types of Buyers

There are four types of buyers for publishing companies, and their reasons for buying a company affect the value they see in it.

Strategic buyers want to purchase in order to control a publishing category.

Investment buyers are interested in owning a publishing company and generally purchase smaller ones.

Financial buyers are institutions or groups, such as equity funds, interested in buying and consolidating companies that publish in a particular category.

Liquidation buyers want publishing companies that are bankrupt or liquidating.

Valuation Approaches

In determining a purchase price for a publishing company, a buyer may select among valuation approaches, such as:

* *The income approach.* Often used for validating a purchase price, the income approach generally focuses on net present value and discounted future cash flows after tax, which tells

a buyer whether future cash flows can substantiate the purchase price, and what additional capital investments in the company to expect.

* *The market approach.* Generally used to provide a guideline or range to support the value of a publishing company, this approach can be based on comparable sales transactions of private or publicly traded companies that are similar to the company being sold in terms of revenue size and product focus. Alternatively, a market approach to determining value might focus on a multiple of profitability, typically EBITDA (earnings before interest, taxes, depreciation, and amortization). The greater the EBITDA, the higher the potential value. Each buyer will apply its own ratios and return on investment benchmarks.

* *The liquidation approach.* Generally used for companies that are bankrupt or going out of business, this approach usually generates the lowest purchase price.

Publishing Categories

The kind of publishing that a company does has a great impact on its value to buyers.

Medical, legal and professional publishers tend to have the highest value because of their high sales prices for products, higher profit margins, evergreen titles, lower returns, and well defined and accessible end users, as well as because of the relatively high barrier to entry for product lines of this sort.

Educational textbook and supplemental materials publishers constitute the next level in valuation hierarchy because of their mid- to high sales prices for products, higher profit margins, lower returns, and evergreen titles.

Trade publishers are valued more highly when they have successful brands. Branded trade publishers with control of their categories and consumer recognition of their names rank above general trade publishers, which have lower valuations because of product pricing pressures, high returns, greater competition, and a low barrier to entry for product lines of this sort.

Revenue Size

Revenue size is a key component of a company's value, and companies with higher net revenues are, of course, more attractive to potential buyers. In terms of general salability, publishing companies can be divided into three net-revenue segments:

Under \$500K. A publishing company with annual net revenues below \$500,000 is very hard to sell. Buyers may purchase author contracts because standard valuation approaches are difficult to apply at this revenue level.

\$500K to \$5 million. Publishing companies with net revenues in this range tend to have titles focused on a subject, category, and standard valuation approaches can be applied. Sellers

much provide good financial information, evidence of smooth running operations and a history of profitability (see last month's article in this series titled *What Buyers Want to See*).

\$5 million to \$20 million and up. These companies tend to have the leading titles in their subject categories. Buyers find them most desirable and can easily apply standard valuation approaches and use them to determine purchase prices.

The next article in this series will cover strategies publishers can use to create more value in their companies.

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Howard has had success operating four publishing companies. He has founded, built and sold two successful trade book publishing companies, one to a major newspaper chain and one to a major New York publisher. Howard now is a consultant for The Siburg Company, LLC in the areas of business development and mergers and acquisitions.

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