

Exit Strategies

Preparing the Company for Sale: What Buyers Want to See

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Potential buyers for a publishing company generally look hard at certain aspects of it, and vanish if they do not like what they find. Fortunately, the same practices that will help you run your publishing house more efficiently and effectively on a daily basis will also help you position it for an advantageous sale.

Revenues and Sales Programs

Buyers want to purchase – and are willing to pay more for – companies whose revenues have been increasing year after year because continually improving sales indicate that a company is well run, both operationally and financially. In other words, revenue growth shows a buyer that the publishing company's products are selling and that there is a high probability of recouping the purchase price.

Buyers are not willing to pay for a publisher with flat or decreasing year-to-year revenues, poorly run operations and weak financial information and infrastructure.

Accordingly, a strong sales program is key. It should include maintaining or growing sales throughout negotiations with a serious prospective buyer to ensure that sales do not fall before the deal is final. And, it should involve concentrating on increasing revenues in every sales channel you use – regular, special, foreign, domestic, and rights-related – both before you put the company on the market and during negotiations with the buyer, which might take 18 months or more, and could fizzle out altogether.

Bear in mind that concentration issues increase the buyer's risk factors and reduce the value of a business, whether the concentration relates to customers, products, accounts receivable, inventory, or sales channels.

Financial Information

Publishers should pay as much attention to producing good financial information as they do to producing good books. Proper financial practices and statements will help the business run on a daily basis while they validate its value for potential buyers. Sloppy financial practices will cost your business money every day, up to and including the day it is sold.

Buyers want to see financial information that is meaningful, accurate and timely. It must be up to date and easily accessible. Audited statements are the gold standard here. Audited

financials give buyers a high comfort level. When outside accountants have verified the account balances, financial due diligence for the sale of the company can often be streamlined.

Specifically, buyers want to see that any company they are considering has a budget as well as financial and operating metrics that it is using to help manage and direct its business. This means that you should review all accounts on the profit and loss statement and balance sheet with an eye toward what can be improved – paying special attention to accounts receivable and inventory – and that you should ensure that payroll and business taxes are always current.

Properly run operations provide measurements of key operating data and help a buyer understand the costs of running the business. Buyers can use this data to determine how much additional margin they might obtain under various scenarios and will factor that calculation into the purchase price they offer.

Accounts Receivable

Most sales of small to mid-sized publishers are structured as asset sales, and buyers generally do not purchase the sellers' accounts receivable. But, good accounts receivable balances still help publishers sell their companies because they give the buyer a great deal of information on how the company has been operated. Properly managed accounts receivables show a buyer that the company's revenues are good, that product returns are normal, that the customer base is diverse, and that customer return surprises are unlikely after the purchase of the company.

Properly managed accounts receivable also help the seller collect quickly after the sale, as those cash receipts are generally considered as part of the price you are getting for your business.

Inventory Levels

Buyers want to know that your inventory levels are high enough so that fast-moving products will not be out of stock when they acquire the company. At the same time, they do not want to purchase slow-moving, old or obsolete inventory.

This means that you should strive to keep inventory levels in balance with sales, letting prospects see that they would be able to recoup their investment in a timely manner and not have to invest more cash into the company immediately after the purchase.

Contracts

A publishing company's main assets are its contracts, because they give it the ability to publish and sell works in specified languages, media, and geographic territories.

For buyers, a key to the value in a publishing company is often found in an assignability paragraph of the author agreement. All author contracts need to be assignable. Otherwise, you cannot transfer your rights in them to your buyer.

Looking Forward

Publishers sometimes neglect their forward publishing plans when they put their companies up for sale. But buyers want to see that you are still running the company for the future. A strong forward publishing plan, with authors under contract, will give a potential buyer reasons to believe in future revenue streams.

Also keep an eye on future business environment conditions and issues, such as interest rates, which might change in ways that would reduce or enhance your company's value.

The next article in this series will focus on ways publishing companies are valued.

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