

Exit Strategies

What Creates Value in a Publishing Company

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Long before you are ready to think about selling your publishing company, you should think about what creates value in it. The following are key factors in creating value.

Seller's Reputation

A publishing company is a business that reflects the owner's character and reputation in the industry. Many independent publishers use their own names or parts of their names in their companies' names, and a publisher's competence and attention to detail become evident through every aspect of the business. A prospective buyer needs to feel comfortable with the seller, and with the reputation the seller has built up over many years. A seller's history can make or break a deal with a buyer.

Product-Line Quality and Depth

A quality product will stand the test of time. Add depth to a product line with strong backlist sales and you will improve your company's chances to achieve success and lasting value. Add a good forward publishing list as well and you will make the company still more attractive to buyers.

Because buyers think in terms of purchasing product for future revenue streams, strong backlist sales are a key value component and help predict future revenues. Buyers will analyze sales by title and by channel, placing higher value on recurring sales at full retail and/or in non-returnable sales channels. Although they also want and need to see products under development with signed author agreements, they generally place limited financial value on the forward list because the costs of bringing the products to market offsets much of the revenue stream.

Companies with focused product lines that lead a market segment or a subject category have relatively high value. Product lines that are scattered over numerous subjects and market channels and that don't stand out in any particular area are less attractive to buyers, who know that marketing expenditures produce lower returns in the absence of focus and synergy.

Not surprisingly, buyers want to see strong sales in several channels, including trade, special sales, foreign rights and Internet, and they will find a pattern of increasing Internet sales attractive.

Intellectual Property Holdings

Because publishing companies deal in intellectual property, buyers may acquire author contracts, licensing agreements, Web sites, company names, trademarks, and copyrights, as well as product inventories. A publishing company's most important assets – its author contracts – must be assignable to have value for a buyer. Make sure that you get the right to assign contracts in all your past, current, and future agreements with authors.

In addition to reviewing author contracts for assignability, prospective buyers check on ownership rights to Web site names, trademarks and copyrights.

Buyers see additional value in intellectual property they can repurpose in their own product lines or in new media formats, so you should also ensure that you have the right to use and sell your company's intellectual property in all kinds of media.

Financial Information

Financial information forms the baseline for all valuation analysis. Prospective buyers use financial and valuation analysis together to determine purchase prices. When financial information is clean, easy to understand and quickly retrievable, it will not pose problems during the sales process. Otherwise, financial information will be a major issue and the value of the company will be greatly reduced.

A prospective buyer who cannot rely on a seller's financial information will perform more due diligence on the seller's company. And a buyer who cannot get comfortable with the seller's financial information may decide not to make an offer.

Audited financial statements, the gold standard in accounting information, provide additional credibility and support for the seller's financial representations.

Profitability and Gross Margins

Profitability adds value today and for the future. A buyer will see historical trends of profitability as the strongest indicators that it is making a solid investment in a healthy publishing company with good potential that can provide a positive return on investment.

A buyer also needs to understand a seller's gross margin. Gross margin analysis focuses on book pricing strategies, PPB (printing, paper, and binding costs), royalties, and inventory storage and fulfillment costs (whether these are internal or outsourced). Often, buyers analyze gross margin by title.

Business Operations

Publishing company acquisitions are generally structured as asset purchases rather than share purchases of company stock. The buyer usually purchases selected assets and consolidates business operations for economic savings.

To make realistic financial modeling assumptions for combining the seller's operation into the buyer's company, a buyer needs to understand the seller's operating costs. Buyers also want to see sellers running operations efficiently during the acquisition process

As we have noted before, every owner of a publishing company should run the business as if it were for sale every day. Following this advice will equip you to respond to sale opportunities, which tend to arise unexpectedly when you are a growing and profitable publisher, while making your company easier to run and more profitable whether or not you ever decide to sell it.

The next article in this series will cover options for transferring ownership of a publishing company.

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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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