

## *Exit Strategies*

### **When You're Selling Your Company: Key Choices, Key Moves**

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After careful consideration, you have decided to sell your publishing company and turn your equity into cash, diversifying your personal wealth. Two basic types of transactions are available, each with numerous ways of meeting buyers' and sellers' various needs.

An asset purchase is the most common form of business sales transaction involving small to mid-sized publishing companies. The buyer acquires only selected assets of the seller's company, primarily intellectual property and everything related to production, marketing, sales, and the inventory. Asset purchase sales transactions provide tax benefits and liability protection to buyers and generally result in a higher price for sellers than stock sale transactions.

For a stock sale, the seller's company must be a corporation. The buyer acquires the whole company and its stock and assumes all assets and liabilities of the business along with ownership. A stock sale usually provides tax benefits and liability protection to the seller but the purchase price is generally at least 25% lower than it would be in an asset sale because the buyer does not receive the tax benefits of expensing the assets over time.

If a business is prepared for a sales transaction, as discussed in earlier installments of this series, the sales process generally takes 6 to 18 months from start to finish. If the business is not ready for sale, it will take much longer – possibly 18 to 36 months to prepare and then 6 to 18 months for completion.

#### **Teamwork Tips**

To support the sale of the business, a seller needs both an internal and an external team.

The internal team should include only the people in the company who absolutely need to know that it is for sale because they must provide information and support sale transaction efforts. This team generally includes the chief accountant, key sales and marketing personnel, the editor/publisher, and owners. Arrangements should be made to compensate the team for their extra efforts and staying to complete the transaction.

The external team should comprise people who will support the sale of the business with technical expertise, as needed. It can include legal counsel, an estate planner, a CPA and tax accountant, and a business broker.

We strongly advise using a publishing attorney with transaction experience because there are important differences and needs in an intellectual property transaction. Using a business broker is often wise. Unlike the owner, who may never have done a business sale transaction before, an experienced business broker does them constantly. Brokers guide the sales process forward, are objective about the company's market value, and help both buyer and seller move through technical and emotional issues.

If you decide to work with a broker, you can expect the broker to provide you with knowledge of the marketplace; visit your offices to get a thorough understanding of the company and the management; review history and opportunities; prepare an offering memorandum; research and contact potential buyers; handle non-disclosure agreements, information requests, product reviews, financial information, help with a letter of intent, due diligence, and legal documentation; and negotiate the sale and its value while you continue to run and grow your company in the interests of getting the best price for it.

### **Additional Options**

Although selling a business to an outside buyer is the most common method of ownership transaction, other exit strategies are available to publishers. They include:

\*Wind down the business and close the doors.

Small publishers operating as sole proprietorships often choose this option, which involves letting titles sell down without spending any more money to market them, and taking a small profit until sales end. Obviously, it provides minimal terminal value to the owner.

\* Transition the business to the next generation.

Many publishing houses have been passed from generation to generation. This can be a successful strategy when the next generation is interested and knowledgeable about both the publishing business and running a business in general. However, it can place a large psychological burden on those who bequeath their companies and assume that operations will not change and on those who inherit the companies and feel judged according to expectations they may not share.

\* Use an employee stock ownership plan (ESOP). This requires selling stock in your company to your employees over a period of time, usually several years. The business' cash flow is commonly used to pay for the stock. Generally, it also involves getting an independent valuation of the business on an annual basis until the stock ownership transfer is complete. If the business increases in value as the employees are purchasing it, the amount the seller will receive for stock will also increase, causing problems if the business cannot afford the additional cash drain. If the value of the business decreases, the value of its stock is reduced for both seller and employees, and the seller faces the risk that the business may fail, with payments for stock limited to those already received.

Whichever exit strategy a publisher chooses and however long and complex the exit process is, what happens next can be just as exciting and rewarding as owning a publishing company can be.

In some cases, the sale of the company is the key event that allows the owners to have adequate resources to enjoy their retirement. In other cases, it may provide the capital to allow any number of interests to be pursued in a new career.

This article completes a five-article series describing exit strategy considerations for book publishers. Please refer to the prior four issues of *Independent* for the prior articles.

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