

Up for sale

Steve Monnington of Mayfield Media Strategies looks at how to get the price for your exhibition business.

If you are a small enterprise, selling your company or your exhibition will be the most important business decision you will ever make. The amount of money you receive will hopefully reflect the hard work that you have put into building your business.

There have been many sales of exhibition businesses that can be judged as a success for the seller. Equally, there are examples of sales where, for many reasons, the seller did not achieve the price they had in mind when they decided to sell. Planning is the key to a successful sale process and to maximising value.

The right time to sell is one of the hardest decisions to make. There is always a temptation to wait until all the growth has

been achieved and the exhibition looks like it may decline. That is too late. It is difficult for an owner to walk away from something that still has growth in it, but that's what the buyer is acquiring.

When you decide to sell your business, you should start the sale process at least six months before your target completion date. It is useful to carry out a business review and put yourself in the position of a potential purchaser. It is difficult for an owner to be totally objective and dispassionate when looking at their own business so it is much better to employ an independent company to do this.

A potential purchaser will look at many aspects of your business when deciding whether to purchase and how much to pay. Historic results, quality of visitors from the last exhibition and competition to your event are all areas that you cannot affect. However, there are many areas that you can improve in a short period of time and which will make your business more attractive to a potential purchaser:

Sales patterns

Are the contracted sales ahead of this time last year? This is a key area that a purchaser will look at when determining whether the exhibition is on track to meet its forecast growth. Most, if not all, companies have a good sales and sales prospect reporting system, but many don't track the sales against the previous year. If you track these patterns early

enough, you have the opportunity to put more sales resource on the exhibition to bring sales up to the required level.

Exhibitor retention rates

This, together with sales patterns, is the key indicator of whether an exhibition's growth is slowing down or even if it is starting to decline. Make sure you have the 'bellweather exhibitors' contracted in for your next exhibition before you start talking to potential purchasers.

Databases

I am often asked by non-exhibition people, 'what are you actually selling?' When I explain that it's a brand, a habit, some databases of exhibitors and visitors and a venue contract, people usually frown and scratch their heads and say, 'is that all?'

The database element of the 'asset' sale is crucial. I worked with a purchaser recently who pulled out of buying a business because the databases were in a complete mess. They needed to be merged, de-duplicated and cleaned. This is a relatively easy and



"It is useful to carry out a business review and put yourself in the position of a potential purchaser."

If you are helpful, potential purchasers will be positive about dealing with you next time



inexpensive exercise that should be carried out in advance of putting your company up for sale.

Venue contracts

You must have firm dates and halls going forward together with product protection. However you shouldn't be irrevocably 'locked-in' beyond the next edition of the exhibition. Your purchaser may want to relocate your exhibition alongside one of his.

Flexible supplier contracts

All your supplier contracts must be flexible as your purchaser will want to move to his own suppliers in order to negotiate better prices due to increased volume.

Association support

If there is a key association for the sector served by your exhibition, its exclusive support is vital to the value of your exhibition. Barriers to entry for competitive exhibitions can be low and often the association's support can be pivotal. However, the association must not think that you need them more than it needs you. In Turkey, the two competitive exhibition centres in Istanbul have been launching rival exhibitions against each other. The association's support has become the prime weapon in the battle and they demand higher and higher fees for this.

Management

If you are wanting to exit after the sale, it is crucial that you replace yourself. The purchaser will be looking for continuity of

management and will not want to have to hire a new person or re-allocate one of his own to manage the day to day business. Delegate everything and make yourself redundant. This way you can adjust the profits used to value the business by adding back your salary, thereby increasing the valuation.

Once all of these areas have been dealt with, you are ready to start the sale process.

Choose your timing

With an annual exhibition, it is unlikely that the potential buyers visited last year's edition and people generally won't buy unless they have seen the exhibition. Use the exhibition as part of the due diligence process. This also means that you get to keep the profit from the latest edition of the exhibition before you sell it.

In the growth era of the early 1990s, when some of the exhibition groups were growing by acquisition, they preferred to buy the business just before the exhibition in order to get maximum profit impact for the continued growth they needed to show. Now, purchasers are much more circumspect and prefer to see what it is they are buying.

It will be necessary to produce an information memorandum and if you employ a broker they should do this from information you provide him. You should work with the broker to compile a list of potential purchasers. They should know who the likely buyers are, and, as importantly, why your business would be of interest to them. Knowing this will help when preparing the Information Memorandum as key points that

will appeal to specific companies can be incorporated.

The Information Memorandum should answer key questions and not just provide a business description. It should include three years of historic financial data, the current year forecast and projections for next year. There is a tendency to produce what is known as the 'acquisition forecast'. This is a surprisingly common phenomenon which manifests itself as a sharp change in trends (upwards) for the current and future years and which generally isn't supported by contracted sales patterns. It is much better to produce a realistic forecast that is underpinned by reality.

The Information Memorandum should also include a visitor analysis, sales patterns, exhibitor retention rates, key contracts i.e. all the areas that were addressed in the Business Review. It should also include details of competitive exhibitions. This should be an honest appraisal as purchasers will do their due diligence on the other exhibitions in your space.

The Memorandum should be short and factual. I recently reviewed an Information Memorandum for the sale of a single exhibition. It was 40 pages long with a large amount of political and economic data about the country in which the exhibition took place. There was one page of forecast financial figures, no historic financial information and nothing about the key areas such as organising rights, venue contracts or databases. This created an aura of suspicion before any meetings took place.

I am often asked, 'what is my exhibition/business worth?' and the answer is the following: whatever someone will pay for it. A business is attractive to different purchasers for differing reasons. They will be able to add value in different ways and this is why valuations vary. You should always let the market value your exhibition by asking potential purchasers to make offers. If you have a high minimum price expectation below which you won't sell, you may want to

"Let the market value your exhibition by asking potential purchasers to make offers."

invite offers over a certain figure. This will set a benchmark and means you will not waste time talking to companies who have no intention of paying what you expect.

Your broker can advise you on how to maximise value. An earn-out on the next year's profits can be a good way of increasing the amount paid to the seller but can leave him exposed. It is important that the profits cannot be reduced by the purchaser spending more than necessary on direct costs such as promotion. When agreeing to an earn-out you should either personally be involved in running the exhibition and set maximum levels of expenditure in an agreed budget or, better still, base it purely on revenue.

Above all, be reasonable if you seriously want to achieve a sale. The owner of one company once told me he wanted £10m for his business – '£1m for each year I've been running it'. This bore no relation to the profitability of the company and, unsurprisingly, he never sold it.

Using an intermediary to negotiate the price with the buyer can be a good tactic. Often an owner's body language will give the buyer a better clue as to how negotiable the price is. An intermediary will give less away as there is no emotional involvement and there is more scope for a secondary negotiation once he has discussed the deal with his client.

Once you have agreed a price, the buyer will normally expect an exclusivity period in order to carry out their Due Diligence without fear of the seller trying to negotiate a better price with another potential purchaser. The exclusivity period should be relatively short, usually four to six weeks, in order to keep the process moving.

It is important to be fully prepared for the Due Diligence process. If the seller cannot provide information that the buyer needs, it creates suspicion. For one acquisition, where I was working with the buyer, the seller had great difficulty in finding the agreement that gave him the rights to organise one of the exhibitions. We finally saw it when it was provided as a 'Disclosed Document' attached to the Sale and Purchase Agreement two days before signing. Far from having the rights to organise the exhibition, the seller had a management contract that could be terminated with one year's notice. The result was loss of confidence by the buyer and a renegotiation of the terms.

If there are any problem areas, it is much better to discuss these openly and honestly. Otherwise, the problem will either be found

Buyers are suspicious if sellers want to walk away the day the agreement is signed



during Due Diligence. This could lead to renegotiation of terms or even withdrawal, as the purchaser will be nervous as to any other problems he hasn't found. If the problem surfaces after the acquisition is completed it could amount to a claim under the warranties involving substantial amounts of time and legal expenses.

There is a balance between being helpful and keeping everything confidential. Some purchasers want to carry out commercial Due Diligence by talking to key exhibitors to understand the customers perceptions of the exhibition they are acquiring. You must

decide on the nature of your own exit and how long you are willing to stay in a handover role. Buyers are always suspicious if the seller wants to walk away the day the agreement is signed although the purchaser will want to balance your ongoing involvement with their need to run the business in their own way.

If it becomes clear that the exhibition you sold had peaked when you sold it or you launch a competitive exhibition as soon as your non-compete period expires, you may have difficulty when you come to sell your next business. People remember. If, however,

"It is important to be fully prepared for the Due Diligence process. If the seller cannot provide information that the buyer needs, it creates suspicion."

control this exercise, if you allow it at all.

When considering what you tell your staff about your plans, you must always consider that the deal may not go through. If your staff become aware that the business is for sale and then the deal falls through, you will be left with a residue of insecurity, mistrust and demotivation, all of which will impair the performance of the business going forward.

Finally, once everything is agreed, you have

you sell a successful growing business for a fair price and are helpful to the purchaser, this will feed back into the industry and potential purchasers will be positive about dealing with you next time round.

And if you look, there always seems to be a 'next time' in the exhibition business. Despite deciding to leave the industry or retire, it seems that most show launchers just cannot keep away.