WHAT IS YOUR EXHIBITION BUSINESS WORTH?

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A business is worth what someone will pay for it. While this may sound obvious, it is important for anyone considering selling their business to understand that purchasers are becoming more and more sophisticated in how they value them. There is an increasing number of acquisition opportunities for purchasers and they expect sellers to be reasonable in their price expectations otherwise they will move on to something that gives them better value for money.

Purchasers will not overpay but there is a balance that will give the seller a good return for the business they have created and makes sense of the return on investment for the purchaser.

The problem of unrealistic price expectations is common in a number of countries. In 2002 we were asked to sell a UK exhibition business. The company was making a pre-tax profit of £450,000 (US$707,980) but the owner wanted £10m, representing an impressive multiple of 22. His rationale was that he had been running the company for 10 years and wanted £1m for each year. Unsurprisingly, no-one was interested and the business remained unsold. Competition over the years saw the business decline and it no longer runs today. If the owner had been sensible he might have retired with £3m rather than nothing at all.

More recently the owner of a business in the USA decided to sell and put a price tag of $15m on his company. He had calculated that this was the amount of money he needed to retire with. The pre-tax profit of the company is $1.1m. The business remains unsold.

When an entrepreneur is selling their business, particularly when they are retiring, it becomes a very emotional process. This is in stark contrast to the spreadsheet-driven analytical approach that most purchasers take. The purchaser is primarily interested in the future whereas the seller is looking at his achievements in the past.

Maximising the valuation

Sometimes it's hard for the seller to accept that a lot of what has gone before counts for nothing. The number of years the business has been established, the amount of hard work put in during these years and the profit levels achieved in the past are of no relevance to the purchaser unless they underpin the strength of the brand, market leadership and future growth.

Although there are many factors that will affect the valuation of a business both positively and negatively, there are also a number of positive steps that a seller can take to maximise the price they achieve. The easiest step to take is to run a formal sale process.

Most organisers have been approached by companies interested in buying their business and it is very easy to get drawn into a one-to-one discussion. However there are two major downsides for the seller. Firstly there is no time pressure and these discussions, which are disruptive to the smooth running of the business, can go on for many months without any tangible progress. More importantly there is no incentive for the potential purchaser to offer a competitive price because there is no competition from other potential purchasers.

Getting the highest price

A formal sale process solves both of these problems. Although purchasers don't like a competitive bidding situation this is a normal part of the acquisition process. In a one-to-one discussion the purchaser can offer a low price knowing that, if it is rejected, they can come back with a higher offer. In a competitive situation there is no such guarantee and therefore offers are usually much higher. A timetabled process also keeps everyone focused and minimises the time spent in initial discussion.

If you are selling 100 per cent of your business then it is simply a matter of who offers the highest price. Increasingly in emerging markets, sellers are looking for an international partner and are selling a majority stake – usually between 60 and 75 per cent with the rest to be sold at a later date. This requires a much more strategic approach as it is not just about the money today but the value of the remaining shares in three or five years.

With a partial sale it is more important to research your potential partner and to assess how much value they can add to the business. The best partner may not be the one who offers the most money up front but the one who can maximise the growth.

In summary, multiples are generally increasing and are currently in the range of six to eight times EBIT, with particularly strong businesses or exhibitions in fast growth sectors such as energy achieving a little more than this. Where an individual business sits within this range depends on the factors outlined above. With a careful review of your business, a systematised approach to selling and realistic price expectations a seller can achieve a good price.

This is not a one-way process. The most successful deals are always those where both parties are happy with the eventual outcome. EW

FACTORS AFFECTING VALUATION

The value of a business is normally expressed as a multiple of Earnings Before Interest and Tax (EBIT). There are many factors that affect what the multiple will be and here are the main ones.

- **The sector** – Shows in different sectors attract different multiples depending on that sector's growth potential.
- **The size of the business** – Although acquiring a business with critical mass was a lot more important to purchasers a few years ago most are prepared to pay a higher price for size.
- **The country of operation** – Brazil is experiencing high multiples due to strong competition for a limited number of opportunities.
- **Portfolio risk** – A single show is likely to be valued at a lower multiple than a portfolio of events because of the higher risk.
- **Portfolio mix** – Print products are much harder to sell than exhibitions and, because of declining revenues, they attract lower multiples.
- **Maturity and growth attributes** – The fact that your exhibition has been running for 25 years is not usually a strong selling point.