IT'S ALL IN THE TIMING

EN looks at current views on M&A activity, when is the right time to sell your show or business, what factors to consider when selling and how you can ensure you get the best possible price

Acquisitions activity across the UK exhibition industry today is a far cry from the double-digit multiples and sensational deals of 10 or even five years ago. In fact, several industry commentators argue recent M&A activity has largely been the result of the seller's distress or necessity, rather than blinding commercial success.

While the 1990s were a seller's market, Imago Techmedia MD Hugh Keeble claims market conditions have given buyers the upper hand today. Although he believes the money is still there for the right businesses, multiples are largely sitting at 5-8 times earnings and are reflective of the difficult position many exhibition owners are in.

With stunted UK growth has also come a switch in focus to offshore acquisitions. Reed Exhibitions commercial director Nick Forster observed the local market for sales and acquisitions has been flat for the past two years with few major deals done in the UK. Most of the organiser's acquisitions have been on fast growing, emerging markets such as Brazil and China.

"Vendors in mature markets aren't selling because business is down, while buyers are being understandably more cautious," Forster said. "At Reed Exhibitions we have been focusing our UK activity on tidying up our portfolio."

But while many big deals have occurred elsewhere, there is interest in UK exhibition businesses provided they offer demonstrable strategic and geographic growth. Just look at UBM's £50m acquisition of David Wood's sustainable business exhibition, Ecobuild. Here, we look at key considerations from the point of view of buyers and sellers.

DETERMINING VALUE

A business is worth what someone will pay for it. Sounds obvious right? However one of the biggest stumbling blocks is unrealistic price expectations.

According to exhibition acquisition specialists Mayfield Media Strategies MD Steve Monnington, owners need to understand purchasers are becoming more sophisticated in how they determine value.

"There are 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," he said.

As an example, Monnington outlined a UK business his company was asked to sell making a pre-tax profit of £450k but whose owner wanted £10m. This represented an impressive 22x multiple.

"His rationale was that he had been running the company for 10 years and wanted £1m for each year," he explained. "Unsurprisingly, no-one was interested and the business remained unsold. Competition over the years saw the business decline. If the owner had been sensible he might have retired with £3m rather than nothing."

Although it's understandable to have emotional ties to your business, this clashes with the spreadsheet driven, analytical approach most purchasers take.

"The purchaser is primarily interested in the future whereas the seller is looking at his achievements in the past," Monnington pointed out. "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."

For Reed, determining the sale price depends on a number of factors, all of which can impact future profit, Forster said. These include the size, state and growth potential of the market the show serves, and the amount the buyer will need to invest to ensure future growth.

Timing is another critical consideration for anyone looking to sell an exhibition, Monnington said.

"There is often a strong reluctance to sell an exhibition while it is still generating good profits. However, if a top price is to be achieved it is essential to leave some good growth for the purchaser," he explained. "The optimum time to sell is when the show is well-established in its sector but hasn't yet reached the peak of its growth curve.

"Once the decision to sell has been made, the next decision is whether to sell before or after the show. Our experience is that the best time to start the sale process is about two months before the next edition. At this stage, the forecast revenue should be strongly underpinned by contracted sales. We generally advise our clients to sell just after the show takes place and to invite potential purchasers to see what they might be buying. This is an essential part of their due diligence."

SMOOTH TRANSITION

The sales process is not just economic. VCM Events CEO Henri Cash advised organisers to build a great rapport with all involved and do everything they can to ensure a smooth transition. He claimed there was no better feeling at a sale's conclusion than to feel all parties have won.

In the past three years, VCM has successfully sold off several exhibitions including Broadcast Video Expo to Emap, Grass Roots Live to a consortium of industry buyers, and the Service Desk and IT Support Show to Diversified Business Communications.

"The only measure of success for a new owner is the ability to unlock future potential. It is important, therefore, that during the entire process one treats a potential purchaser as a business partner," Cash said. "This will ensure they fully understand every aspect of the show and can confidently establish good relationships with the key exhibitors. This in itself requires a balance of skills as one doesn't want to appear over-eager to sell during the discussions, which may last many months depending on the timing of the next event."

As an acquirer, easyFairs' main value criterion is the exhibition or business' ability to enhance its show portfolio in terms of content and format. "Our shows are all aimed at distinct professional and business communities working in industrial or commercial sectors," easyFairs UK and Ireland MD Matt Benyon said. "Our positioning is 'time and cost-effective trade shows' and our slogan is 'if only all trade shows were this easy'. Therefore, we are constantly on the lookout for shows that offer exhibitors and visitors excellent value for money and/or time.

"Some of our acquisitions immediately suit the easyFairs format, others we transition into it over time. That said, some formats we leave as they are if that's what the market wants." Benyon used easyFairs' recent acquisition of StocExpo as an example of a purchase fitting strategically with the company's existing European series Pumps and Valves. With around 160 loyal exhibitors and an adjoining conference, this is in profile from a size and format perspective, he said. Like most other UK organisers, easyFairs is also particularly keen on show concepts it can develop and introduce into new geographies – in other words, geocloning.

"From an economic point of view, we are looking for a good return on our investment, but we take the medium-to long-term view on this," Benyon added.

While there are plenty of practical steps you can take to better the sales process, gearing up specifically to sell without adequate focus on running a successful business in

the first place is a mistake, Imago's Keeble said. Keeble and his business partner Mark Steel have sold two exhibition businesses in the past 15 years and formed Imago seven years ago. Keeble attributed both to strong brand values and market position.

"Companies only buy businesses because they are great businesses – not just because they're up for sale," he claimed. "Companies that try and gear themselves for sale by cutting feature spend or staff costs to increase profit margins are doing themselves a disservice. It's absolutely clear to the buyer that is what you are doing."

For Keeble, what a potential purchaser wants is what you should be giving your existing investors right now: The right ratio of profit to turnover, year-on-year growth in most of your products, dominant market share, a demonstrably loyal audience and exhibitor base and the potential to expand into new geographies.

"People think it comes down to lucky entrepreneurs but you don't achieve a good sale through luck – it takes a lot of hard work to get there," he continued. "You need to continue to reinvest and create an unassailable market position."

Monnington agreed effective management tools and an uncomplicated, well-managed company structure were important and ultimately demonstrated well-run businesses. Not surprisingly, this makes it easier for potential purchasers to review the likelihood of meeting the forecast revenue for the next show.

One way of showing efficiency is sales graphs that track cumulative contracted sales revenue on a week-by-week basis and show the current year and at least two historic years. Exhibitor retention rate analysis is also important and in particular should provide analysis trends in the stand size and revenue spend of the top 20 exhibitors, Monnington said.

CONCLUSION

Most UK organisers say acquisitions remain high on their agenda as a way to finding growth. Monnington claimed the company's deal pipeline in 2012 is at an all-time high and expected a range of purchases by UK organisers outside of their home territory.

"Our percentage of business from non-European M&A continues to increase rapidly, which shows that M&A activity continues to switch to emerging markets," Monnington added.

Although easyFairs is concentrating on stable organic growth year-on-year, M&A is helping the company emerge from the recession with an even stronger portfolio, Benyon said.

"With the economic downturn, we are of course seeing more and more small organisers looking for an exit," he said. "However, they also want to be sure the successor will take good care of the stakeholders – exhibitors, visitors, media, venue and so on. That is why, with our track record, we are an attractive proposition as a potential acquirer. We are well placed to make strategic acquisitions over the medium term."

Keeble said buying a pure events business isn't as attractive as it used to be and saw digital trends influencing the acquisitions being sought.

"The great exhibitions of the future will be a fantastic wash of online and using data from events to have sustainable business products 365 days a year," he said. "The combination of events and digital is amazing and unexplored territory. That link is increasingly important for acquisitions moving forward."

Regardless of whether there is a buyer in the wings or not, your key focus still needs to remain on running a profitable, healthy business, Keeble concluded.

"You have to have good business principles at heart. Then you'll be a stable company and things will fall into place. People often forget that." EN

ADVICE CORNER: EXPLAINING MULTIPLES

The value of a business is normally expressed as a multiple of Earnings before Interest and Tax (EBIT). Here, Steve Monnington shares the main factors that affect what this multiple will be.

- **The size of the business** – Acquiring a business with critical mass was a lot more important to purchasers a few years ago and they were prepared to pay a premium price for size.
- **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** – Physical print products are much harder to sell than exhibitions and, because of generally declining revenues, they attract lower multiples.
- **Maturity and growth attributes of the business** – The fact that your exhibition has been running for 25 years is not usually a strong selling point. Purchasers may wonder whether the best days are over.
- **Strategic fit with the purchaser's business** – One of the biggest variables in offers for businesses today is who the purchaser is. There is usually a large range in the offers for any particular business and this is usually a function of the strategic fit.
- **The sector** – Shows in different sectors attract different multiples depending on the growth potential. Sectors such as energy, security and sustainability where there is rapid change and development are currently very attractive.
- **Market position** – A rather obvious one, but market leading shows will always attract a higher value than secondary shows in the same way that vertical shows will be valued more highly than horizontal ones.
- **The country of operation** – The majority of acquisitions over the last two years have been in emerging markets such as Brazil, Turkey, Russia and China. Most UK organisers today are looking further afield to maintain the growth of their business.

WHY YOU NEED A FORMAL SALES PROCESS

Although many factors affect the valuation of a business both positively and negatively, Monnington recommends a number of steps that a seller can take to maximise their sale price.

"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. First, 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.

"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 per cent and 75 per cent with the rest to be sold at a later date. This requires a more strategic approach as it is not just about the money today but the value of the remaining shares in three or five years' time.

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

"With a careful review of your business and a systematised approach to selling and realistic price expectations, a seller can achieve a good price."