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 far cry from the double-digit multiples and sensational deals of 10 or even five years ago. In fact, recent industry commentators argue recent M&A activity has largely been the result of the seller’s necessity or necessity, rather than a driving commercial success.

While the 1990s were a seller’s market, Imago Exhibition 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.”

While many big deals have occurred elsewhere, there is interest in UK exhibition businesses provided they offer demonstrable strategies and geographic growth. Just look at USBM’s £50m acquisition of David Wood’s sustainable business exhibition, EnBuild. 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 he company was asked to sell indicated a pre-tax profit of £450k but whose owner wanted £10m. This represented an impression 2.2x multiple.

“The 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. While 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 specialist, detached, 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 crucial 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 understood by contracted stalls. We generally advise our clients to sell just after the show takes place and to source potential purchasers to see what they might be looking for,” he added.

SMOOTH TRANSITION

The sales process is not just economic. VCM Events CEO Liron Cohen advised organizers to build a great rapport with all involved and do everything they can to ensure a smooth transition. He shared how he was better feeling at a sale’s conclusion than all parties have worn.

In the past three years, VCM has successfully sold out several exhibitions including Broadcast Video Expo to Empow, Grass Room Live to a consortium of industry buyers, and the Service Dock and IT Support Show to Diversity 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,” Cohen 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 about making 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 business.”

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“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 foster the sales process, growing up specifically to sell without adequate focus on retaining an existing business is...
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 reinvent 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 is a consequence 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 – visitors, exhibitors, 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.”

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.

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 organisations 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 timetable 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.”