How much is your exhibition worth?

Steve Monnington, MD of exhibition acquisition specialist Mayfield Merger Strategies, looks at the factors that affect the value of your business ahead of a potential sale

With a new year here, it's the right time for many entrepreneurs to think about taking the life-changing decision to sell their business. If you're one of them, this will be the most important moment of your business life and requires a considered, methodical approach.

The sale process is not easy – it's extremely time-consuming with many potential pitfalls for the unwary. Getting the right price for the business in order to unlock the value, and to reward all the years of hard work and risk, needs both careful planning and a cool head.

Valuations in general

Businesses are generally valued by buyers as a multiple of EBIT (Earnings Before Interest and Tax). As a general observation, multiples are higher today than they have been for a long time and this is being driven by the high number of buyers in the market chasing a relatively small number of businesses. There are three main types of buyers in the exhibition sector:

• The Private Equity (PE) buyers, who are looking to get into the sector. Examples of these who have bought into the sector include Inflexion (CloserStill Media), Charterhouse (Comexposium) and Blackstone (Clarion).

• The private equity-owned organisers - CloserStill, Comexposium and Clarion are three good examples. Once they have been acquired by a PE firm, they have large amounts of capital at their disposal to make a number of follow-on acquisitions in order to increase the size and value of the overall business for when the PE owner sells to another PE buyer.

• The exhibition organisers who are either publicly quoted – Reed, UBM, Informa, Ascential, dmg, Tarsus etc –, privately owned, such as EasyFairs, Mack Brooks and Diversified Communications, or the international arms of the European Fairgrounds such as Messe Frankfurt, Hannover Fairs and Messes Munich International.

All told, there are around 35 regularly active purchasers of exhibitions worldwide.

When these buyers compete in a sale process for a really good business, things become very competitive and valuations can get very high, and these days double digit multiples for larger businesses are becoming the norm. Valuations for smaller businesses are generally lower but are also increasing. Whereas the range of multiples for smaller businesses was 6x to 8x a few years ago, now they tend to be 7x to 9x. Where a business sits within the range depends on a number of factors shown in the box below. With so many buyers around it pays to engage with several of them before deciding who to sell to.

TIP: Although buyers obviously prefer to negotiate on an exclusive basis, sellers won't know if they have achieved the best price unless they run a competitive bidding process.

A multiple of what?

Sellers tend to get hung up on what the multiple is, rather than considering how it's applied. For a fast-growing business, there is a world of difference between a valuation based on a multiple of 8x 2017 EBIT and one with an additional earn-out based on 8x the growth in profits over the next year or two years.

When there is a bidding process, the earn-out mechanism a good way of negotiating a higher valuation from one bidder rather than trying to force through another increase in the headline multiple. A couple of years ago we had four bidders for a business we were selling and the final two offers matched each other in terms of multiple and earn-out for the first year. We differentiated them by negotiating a second year earn-out at a lower multiple with one of the bidders. It was an easier way to clinch the deal and, when the time came, the additional payment was worth in excess of £1m.

TIP: Exhibition organisers are usually living a year ahead, so make sure that the valuation of the business follows suit.

It's all about growth and timing

Historic growth is important as a guide to the future. If you have an exhibition that's grown substantially over the last three or four years, that's a very strong indication that it has a loyal and growing exhibitor and visitor base. Anybody buying the business is buying the future, but the past can be a good guide to what may happen in the future. If you have a show that's undulating wildly in terms of profitability year-to-year it's not going to give anyone great confidence as to whether it's a show that's going to be sustainable in the long run.

Normally buyers like to see at least three years of historic information, to actually show the business has grown and established itself in the market. But if someone is selling a show that's been around for 20 years and is still very small, the potential buyers will want to know why it hasn't grown.

Timing is important. In order to achieve a high multiple, the seller needs to leave growth in the business for the buyer. Entrepreneurs are not very good at doing that - they delay selling because they think, "I can earn a whole load more money next year and the year after and then I'll sell". However, if the profit starts to plateau then it's going to be worth less. Most exhibitions that people sell have been running for a minimum of three years. Having said that, we have sold a few after the first edition and the sellers have done very well out of it, so every rule has its exception.

TIP: If your exhibition has a strong growth profile and you want to sell, don't wait those extra years as a number of things outside your control could adversely affect the business. You can always sell earlier and negotiate an earn out based on future growth.

Entrepreneurs can make life changing money by selling their exhibition business as long as they sell at the right time and take care in choosing their buyer. **EN**

Factors affecting valuation

- 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 – In the past, countries such as Brazil, and Turkey were experiencing high multiples due to the strong competition for a limited number of opportunities. Following economic issues in many emerging markets, the more stable economies such as USA and China are at the forefront when it comes to high valuations
- Content driven events – Strong content attracts high level visitors which in turn attracts important exhibitors. Exhibitions in the technology, healthcare and other education driven sectors that excel at content will always attract a higher valuation than those which just sell stands
- Who the buyer is – One of the biggest variables in offers for businesses is who the purchaser is, as strategic fit plays a large part in valuation. If we receive four offers for a business, the highest offer is usually double the lowest offer.
- 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
- 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 with little annual growth is not usually a strong selling point. Early cycle shows with strong growth will be easier to sell at a good price