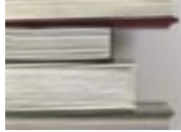




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# Succession Planning for Book Publishers: A Guide to Outsider Succession



Canada

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## Introduction

Selling your Canadian publishing company to an outside buyer—that is, someone who is neither a family member nor an employee—can be a difficult and challenging event to contemplate, plan for and manage. To complete a sale, you have to prepare your company for sale, engage advisors, and then allow outsiders, perhaps even former competitors, into your business to perform due diligence and set a valuation for your company. These important activities will consume a significant amount of your time and attention and even if carefully planned and executed they can be disruptive to the ongoing operation of your publishing company. The cyclical nature of most publishing operations will permit you to carry out some of these activities in the slower phases of your annual cycle to avoid distraction during critical periods (sales conferences or trade fairs, for example).

It is impossible, however, to predict or control the timing of the selling process once discussions begin with an interested buyer and at some point you will be required to balance the daily needs of your publishing operation against the demands of change of control transaction. Selling to an outside buyer can be an unpredictable process; it will likely require a larger investment of time and money than you might expect. That being said, selling to an outsider buyer is an appealing option if internal succession is not possible or if the owner believes that sale to an outsider will result in a higher sale price, more favourable terms or a better chance for the company's long-term success than through sale to an internal successor. The purpose of this guide is to describe the advantages, disadvantages, process, and risks involved in selling your publishing

company to an outside buyer, as well as how to develop an approach to finding potential buyers.

## Why an Outside Buyer?

Selling your publishing company to an outside buyer can be the best course of action in certain circumstances, and in some cases it might be the only course available. For many publishing entrepreneurs, family succession is not a viable option (either because there are no potential successors within the family or there are potential successors but they are either not willing or not able to take over the business). Likewise, a succession plan involving an employee or group of employees will only succeed if the employee or employees are willing and able (both psychologically and financially) to proceed.

Selling to an outsider, however, should not be considered a “second-best” solution to be pursued only after options for internal succession are exhausted. There are certain advantages to selling to an outsider, in fact, that might make it a more appealing option than selling to family members or trusted employees. For example, post-sale employment or consulting contracts with selling owners tend to be for shorter periods of time when the purchaser is an outsider to the business. This feature of outsider succession is an advantage for the owner who refers a clean break with the company after the sale. Selling to an outsider might also enable the selling owner to feel more comfortable about negotiating the terms of the sale (including the valuation) more aggressively than he or she would if a family member or employee were on the other side of the table.

## Finding an Outside Buyer

Demand for Canadian publishing companies, whether among passive investors such as private equity funds or among active investors such as other publishing companies with an appetite for acquisitions, is not robust. Despite the invaluable contributions that independent Canadian publishers make to Canadian literature and culture, from an investor’s point of view the financial returns generated by Canadian publishing enterprises are typically weaker than those available from a wide variety of other investment opportunities. Weak demand, however, does not mean non-existent demand; it does mean that identifying and attracting the interest of buyers will take more creative thought, planning and footwork than it might in many other industries. By beginning the succession planning process as early as possible—even if that means simply starting to think about potential successors—the probability of achieving your succession goals increases significantly.

## Building a List

It is never too early in the succession planning process to begin thinking about who might be interested in buying your publishing company. Obvious candidates—other publishing companies, for instance—will spring to mind, but it will take some creative thinking and research to identify other potential candidate both within and outside of the publishing industry. To the extent that you can consider the widest possible group of potential buyers, you can solicit interest from a larger number of candidates and realize the highest valuation.

Ask yourself the following questions:

- > Who are your competitors? Who among your competitors might benefit from combining their lists or operations with yours?
- > Who are your counterparts—that is, publishing companies similar to yours but who operate in a different segment of the market or in a different geographical market than you? Which of these companies might benefit from expansion or growth into your market?
- > Who are your key suppliers or partners? Is there an opportunity for your company to integrate into an earlier or later step in your supply chain by merging with a printer or distributor?
- > What companies operating in other media (television, magazine and newspaper, internet) might find a complementary fit with your publishing operation?
- > What firms in the financial world are inclined to invest in media or publishing companies? The answer to this question will depend on where you are located, the size of your company as well as factors beyond your control, such as the strength of the economy, interest rates, and investment analysts evaluations of the industry. Your lawyer, accountant or financial advisor can help you to locate such firms.

Some of these questions can be answered simply by brainstorming and using the internet and your existing knowledge of the Canadian publishing industry. This desk research, however, should be supplemented by field work—that is, attending events organized by publishing industry associations and meeting with your counterparts in other publishing companies to discuss succession planning. Gathering this intelligence early on in your succession planning process will allow you to make better decisions

about the succession opportunities into which it is worthwhile for you to invest time and money.

The sooner you start compiling a list of potential buyers, the sooner you can start to understand the players in the industry and why they might be interested in buying your business. Most people who are considering selling their business to an outside owner start compiling this list long before they seriously begin the process.

## Preparing for the Outside Sale

Selling a business to an outside buyer is a complicated process which involves many parties. You and your buyer will have each be represented by lawyers and advised by accountants at some stage of the process. You may also want to engage other financial professional (such as estate planning experts or leveraged buyout advisors) depending on the complexity of the transaction. The buyer may have financing sources (banks or equity investors, for instance) who may get involved at some point, and they may even hire consultants and advisors of their own to help them with the due diligence process. The number of parties involved, and the complexity of the relationships among them necessitate that you be prepared for the process to ensure that you can effectively manage the process and the information flow as much as possible. It is in your best interest as the seller to ensure that the process continues to move smoothly and at a reasonably swift pace. If the process stalls or becomes disorganized due to failure to prepare, the buyer may feel that you are not committed to closing a transaction, and may decide to pursue other opportunities. In a buyer's market—that is, a market where there are few buyers and many sellers, such as the Canadian publishing industry—it is incumbent on the seller to initiate and maintain

momentum in the selling process. Further, if a buyer feels that you have not disclosed sufficient information, or that the information is not reliable, it will affect the valuation that they place on the business.

The first stage of preparation is likely the selection of advisors who will assist you throughout the process. You will most definitely need legal counsel, as well as accounting and tax advice. It is likely that you already have a close working relationship with your lawyer and accountant. As soon as you make the decision to begin the succession planning process, discuss your goals and objectives with those advisors, and determine with them if they are willing and able to help you through the process, or if they need to refer you to other professionals, either within their respective firms or in other fields. Having open and frank communication with these advisors is essential. They can effectively promote and defend your interests only if you have fully and clearly communicated your wishes, objectives and constraints to them.

In addition to legal and accounting advice, many sellers find it worthwhile to have a financial advisor who specializes in mergers, acquisitions, and sales of this nature, to assist in the transaction as well. The advisors selected should have significant experience representing sellers in the publishing industry, and should have experience working with businesses of approximately the same size as yours, so that they will understand the specific requirements and issues you will encounter. A financial advisor will perform a number of very important tasks, and an experienced advisor can have a great impact on how well the process runs and the ultimate valuation achieved for the seller.

Your advisory team can assist you in the succession planning and selling process by:

- > Guiding you in the preparation of all financial and legal materials prior to looking for potential buyers;
- > Developing a preliminary valuation to shape your expectations and develop a starting point for negotiations with buyers;
- > Creating a marketing document for sellers to read as a starting point for learning about your business;
- > Searching for and creating a list of potential buyers;
- > Making initial contact with the buyers and soliciting their interest in purchasing the business;
- > Leading negotiations with the buyers during the due diligence process;
- > Working in your interests to bring the transaction to a successful closing.

After selecting your advisors, your next step should be to develop a plan for selling the business. This plan should include a timeline and a list of all information that will be required at each point in time. Further, the plan should detail who will be responsible for each task, and who will be involved from the company at each stage of the plan. The process will ultimately demand the involvement of many of the company's employees. As a result, it will be important to control the process to ensure that it does not cause excessive distraction from or disruption of the ongoing operation of the business. An early step in the process should be the preparation of information that you will share with potential buyers. An outside buyer will have very little knowledge of the financial and operational details of your particular business, and will possibly

not have as much knowledge of the industry in general as you do. The buyers will be relying on you, among many other sources, to provide them with the large amount of information they require to get comfortable with your business and with the value that they will pay for it. You may have some information available, but more often than not, private small businesses that do not have to disclose such information regularly do not have the information readily at hand. In order to be able to provide the required information, you will have to have solid financial information systems, good book-keeping, and good record-keeping in general, so that you can generate consistent and reliable financial and operational information for potential buyers.

If you believe that you are likely going to be selling your business to an outside buyer as part of your succession plan, then you should begin working on the information preparation stage months, or even years in advance. By the time you get to the point where you are discussing the business with potential buyers and need to disclose information to them, the information systems will already need to be in place. Before embarking on this process, you need to ask yourself: Does the business currently generate consistent, regular, and reliable financial information? Can you quickly and accurately answer the questions about the financial and operational condition of your company that a potential buyer will certainly ask? If not, then you will need to work on your information systems to ensure that you can satisfy the requirements of a potential outside buyer. Any doubt that buyers have about the information that you are providing, about their completeness or accuracy, will impact the value that they are willing to pay.

## Creating a Selling Document

Whether you hire a financial advisor or not, you will need to prepare a marketing document to distribute to potential purchasers. This marketing or selling document should provide potential purchasers with the information required for them to determine if they have an interest in the business and would like to pursue a possible transaction. This initial document will not contain a complete and thorough disclosure of everything about the business, but it should include enough information for a potential purchaser to decide if they are interested and for at least an initial opinion on the value of the business. You will not, for example, disclose details of existing contracts with authors, distributors, employees, landlord, etc. It is important while preparing this document to remember that this is a marketing tool. It should be focused on presenting the company and the industry in an attractive light, and inviting readers to express an interest in the opportunity and place as high a value on the company as possible. Further, depending on what types of potential buyers you are considering approaching, you may have to include background information about the industry to educate potential acquirers and to provide some context for the specific opportunity of buying your company. Each circumstance will vary, but the marketing document should generally contain the following elements:

- > A narrative description of the history, development, size and growth rate of the Canadian publishing industry;
- > Your company's summary financial results for the past three to five years, including grant, subsidy and other financial support information;
- > Your company's Pro forma financial results for the current year;

- > A narrative description of the history of the company;
- > Brief biographies of your key management staff (publisher, senior editor, rights managers, etc.);
- > Publishing highlights for the past three to five years (such as best sellers, critical successes, etc.);
- > Publishing plans for the current year (new authors signed, manuscripts in editorial process, etc.);
- > A discussion of your view of the potential future of the business.

The selling document will undoubtedly contain some sensitive information about your company and its position within your industry. Should the document fall into the wrong hands, a competitor's for example, it could cause some harm to your business. As a result, each copy of the document should be controlled, and everyone receiving one should be made to sign a strict confidentiality agreement prior to receipt. Further, all copies of the document should be recovered from potential buyers who do not pursue the opportunity, and should be destroyed.

## Using Advisors to Help Identify Potential Buyers

It is a useful exercise to brainstorm with your advisors to create a list of the entire universe of potential buyers. In compiling this list, there are a number of valuable resources that you can exploit. Of course, if your advisors are experienced in the industry, they may have had contact with potential buyers or have heard industry “gossip”, and can contribute their industry expertise. You can also consult industry directories, trade associations

and their publications, as well as newspaper and magazine articles that are directed towards your industry, to generate names of companies or individuals that you think might be interested in the opportunity. Compiling the list of potential purchasers is the easy part. The difficult part is determining which parties you want to begin contacting. Obviously, you do not want to just begin contacting everyone on your list. A “shot-gun” approach will likely cost you a great deal of time, since there will likely be a large number of names on your list, and engaging in conversations with each one is time-consuming, even if it is only to gauge their preliminary interest. Further, because the information you will disclose in these initial conversations is sensitive, and because your list will include many of your competitors and other industry participants, you will probably not want to share this information with all of them. In fact, simply the fact that you are looking to sell your business may be something that you do not want all of them to know.

You will need to use your judgment and experience with the parties involved, as well as rely on direction from your advisors, to determine which of the potential buyers on the list are “qualified”, and should be approached. Qualified buyers should include those that have the financial resources to make the purchase, as well as the management resources to actually get the transaction completed and closed. Further, you will want to consider some intangible factors. Does the potential purchaser have a reputation for negotiating fairly? Are you comfortable handing over your business, and your employees, to them, regardless of the price paid by them for your business? Can you trust them enough to share sensitive information with them during the due diligence phase of the transaction?

## Due Diligence

Once you have approached potential buyers and they have expressed an interest in buying the business, and possibly even made you an initial offer, you will enter what is called the due diligence process. It is important that you set the tone in this process. To the extent that you can control the due diligence process, you can minimize disruption of your business, and control the flow of information and timing of the process. If you decide to go to this stage with a purchaser, then you are likely satisfied with the valuation they have proposed, and with the purchaser in general, so you will likely want to move through this as quickly as possible to a successful closure of the transaction.

Due diligence involves a detailed exploration of the business, beyond the initial information provided in the selling document. Prior to closing the deal and giving you a cheque, the buyer will want to know everything about the business, and has a right to do so. The purchaser will probably provide you with a list of information they require, that will generally fall into the following categories:

- > Accounting due diligence. The buyer's accountants will want to verify the accuracy of all financial statements and information systems.
- > Legal due diligence. The buyer's legal team will want to perform legal searches and verify that all proper legal arrangements and documentation is in place for all of your business dealings and relationships. They will want to discover and understand all the legal liabilities of the company and determine which liabilities are being assumed by the new buyer.

- > Operational due diligence. The buyer will want to understand exactly how the business works, and what is happening within the business from an operational point of view. They will likely want to spend a great deal of time at your place of business observing the operations. They will also likely want to interview customers, authors you have under contract, and current employees. Some might like to interview ex-employees and former business associates, and any buyer will most definitely want to spend considerable time getting to know everyone on the management team who will be remaining with the business after the transaction.

While this due diligence is happening, you will likely be constantly negotiating with the buyer as they discover new things about the business. You will have to decide which liabilities and what type of legal exposure the new buyer will inherit with the business, and which you will retain after you leave. Also, the buyer can discover things in the course of due diligence that might cause them to re-evaluate their initial offer, and they may want to re-negotiate the price with you. Some of these negotiations can become very heated and contentious, and it is very common for deals to fall apart during the due diligence phase.

Clearly, due diligence is a very intense process that will be extremely disruptive to your business. It will involve a lot of different people within your organization, and will involve allowing outsiders to have extensive access to the inner workings of your business before a transaction is actually consummated. This underscores the importance of taking control of the process, and ensuring that it moves as smoothly and quickly as possible. In addition, note that you will not go through this process with many potential buyers. In fact, it is advisable that you only allow one purchaser to

perform due diligence. Prior to allowing them to perform due diligence, you should sign a letter of intent that indicates what they are prepared to pay for the business, and the specific conditions under which they are allowed to re-negotiate the transaction or walk away from the deal. By doing this, you can identify potential deal-breakers before beginning due diligence, and perhaps decide not to pursue a transaction with that purchaser based on their conditions. Further, before allowing them access to your business, you should most definitely perform some due diligence of your own on them, if you do not already know the purchaser well. You should ask them for references, and talk to other people who have sold their businesses to them, and you should spend a significant amount of time getting to know them to determine if you can trust them enough to get into this process with them.

## Leadership Transition

Following the closing of the transaction, it is not realistic to believe that you are going to leave the business right away and hand over the reins to the new owner. Although this does happen, it is not common. Generally, there is some period of overlap during which the selling owner will be responsible for managing the transition of the business to the new ownership. As the exiting owner, you will have probably committed to staying on for some period of time to manage this transition, usually for some financial consideration. By this time, the new owners will have already met and become familiar with your management team, and probably many of your other employees. But your involvement for a few months following the sale will ensure continuity with customers, projects, and other business relationships, and will greatly increase the chances of the new owner continuing the success and prosperity of the

business. Managing this transition poorly can result in difficulties with employee morale, customer satisfaction, and an interruption in sales growth. Given that you have strong emotional ties to this business, it is worth postponing your retirement for some short period of time to ensure that this major event in the life of your business does not cause it unnecessary trauma or damage.

## Conclusion

Selling one's business to an outside buyer can make sense for many retiring owners. The process can be difficult, long, and time-consuming, and carries with it certain risks. However, the reward of liquidating the value of your business so that you can retire and pursue other interests, while completely leaving behind the risks of running the business from day to day, can be well worth the trouble.

## List of Resources

### **Industry Canada**

[http://strategis.ic.gc.ca/sc\\_mangb/stepstogrowth/engdoc/download/step3.PDF](http://strategis.ic.gc.ca/sc_mangb/stepstogrowth/engdoc/download/step3.PDF)

*A downloadable PDF self-study guide examining all aspects of enterprise valuation*

### **Business Development Bank of Canada**

[http://www.bdc.ca/en/my\\_project/Projects/articles/How\\_evaluate\\_proposed\\_acquisition.htm?context={2E3C1A4C-3C3B-4E19-86BBDE3CE8AC4A44}](http://www.bdc.ca/en/my_project/Projects/articles/How_evaluate_proposed_acquisition.htm?context={2E3C1A4C-3C3B-4E19-86BBDE3CE8AC4A44})

*An article on how to evaluate a proposed acquisition.*

### **Business Development Bank of Canada**

[http://www.bdc.ca/en/business\\_solutions/consulting\\_group/projects/growth/succession\\_planning.htm](http://www.bdc.ca/en/business_solutions/consulting_group/projects/growth/succession_planning.htm)

*Succession planning and valuation resources.*

### **The Canadian Institute of Chartered Business Valuators**

<http://www.cicbv.ca/>

### **The Certified General Accountants Association of Canada**

<http://www.cga-online.org/>

### **The Canadian Institute of Chartered Accountants**

[http://www.cica.ca/index.cfm/ci\\_id/641/la\\_id/1.htm](http://www.cica.ca/index.cfm/ci_id/641/la_id/1.htm)

### **ValuationResources.com**

<http://www.valuationresources.com/>

*A business valuation web portal*  
**The Canada's Venture Capital  
and Private Equity Association**  
<http://www.cvca.ca/>

**L'ordre des comptables agréés du Québec (OCAQ)**  
<http://www.ocaq.qc.ca/>

**Fiscal and Financial Planning Association (APFF)**  
<http://www.apff.org/>

*Non-profit organization with expertise in  
the areas of taxation, finance and wealth  
management and estate planning*

**Réseau Capital**  
<http://www.reseaucapital.com/>

*Quebec venture capital association*