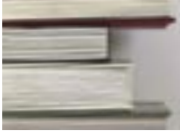




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# Succession Planning for Book Publishers: Readying Your Company for Sale



Canada

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## Introduction

Selling your publishing company can demand as much thought and planning as launching the business did in the first place and the process begins long before and in some cases can continue long after the day on which you pass the keys to the new owner. Planning for and concluding the sale of your publishing house will require skills and knowledge that you—as the operator of the business on a day-to-day basis—are unlikely to possess. Even the most successful publishing entrepreneurs turn to business-transaction specialists such as accountants and lawyers when the time comes to exit the business and transfer ownership to a new generation of leaders. However, before engaging professionals for assistance—and in order to make the most economical use of their time—it is important that you develop an understanding of the general process and timeline of the typical succession-based business sale and the various roles that professionals will play in this process. This knowledge will help you understand the scope of work required, the timeframe in which this work must be done, and the points within the process at which you will require the assistance of professionals. This guide provides advice on the process of preparing your publishing company for sale in the context of succession planning. It is intended for owners, managers and employees of Canadian publishing firms who may be facing the challenge of ownership transition in the next several years.

As revealed in the other guides in this series, passing the baton is too simple a metaphor to describe leadership and ownership transition, a transaction that involves communication and cooperation over

a sustained period of time among several parties. These parties include lawyers, accountants, authors, employees, potential successors, and of course the retiring owner. Accepting that succession planning will demand time, dedication, and a strong understanding of where your company is and where you want to be when you retire will increase the likelihood of a successful transition.

## The Succession Planning Process

More than fifty per cent of the owners of Canadian publishing houses will retire over the next five to ten years. To ensure the successful continuity of Canada's book publishing industry, it is crucial that current owners—who have laboured to publish and promote indigenous literary talent—begin to plan for their succession well in advance of their retirement.

Once you resolve to begin the succession planning process, which you will likely do years prior to your retirement, sketch a timeline for your succession planning that includes milestone dates—the most critical of which being the date by which you ideally want your exit from the company to be complete. List names of advisors, including a financial advisor, an accountant, an estate lawyer, a business lawyer, and possibly a transition consultant that could assist you with the process. Rank your financial goals and the goals you have for your company. Partners, family members, and employees may inform your decisions in this regard.

With your financial goals for the sale of the company in mind, you will next determine the financial value of the company. This involves working with your accountant to determine the value of your

assets—the things of value that your company owns—and your liabilities—your company's debts and other financial obligations—in order to develop a range of value for your company. Your tangible assets include equipment, inventory, and cash in the bank. Your intangible assets include intellectual property, imprints or series titles, and your employees' expertise. Your liabilities comprise equipment leases, banks loans, and accounts payable. To evaluate your tangible and intangible assets, you and your advisor will need to determine whether to use a discounted cash flow approach or a liquidation approach (please see *Succession Planning for Book Publishers: A Guide to Valuation*). This evaluation, once conducted, will enable you to judge whether your initial goals for the sale—as well as your plans and expectations for your retirement—are realistic.

Once you have ranked your objectives and determined a value for your publishing company, you should next begin thinking about potential successors. You may have a family member or a number of highly-skilled employees in mind (please see *Succession Planning for Book Publishers: A Guide to Insider Succession*); you may search outside of your immediate professional and family circle to competing or complementary publishing houses and possibly even to investors or media companies looking to expand into book publishing. Whomever you have in mind, you need to determine that the successor possesses the ability, vision, and financial resources to close the transaction and manage the business.

You will then engage in mutual due diligence with short-listed candidates. During this phase, you will fact-check candidates background and business history, examine legal and financial records related to their ability to conclude the transaction. You may run reference checks, interview knowledgeable third parties and carefully review documentation to substantiate the information provided. Potential succes-

sors will also want to examine your financial and legal records (please see the Succession Planning for Book Publishers: A Guide to Outsider Succession). At this point, you will likely engage your advisors to help you negotiate the transaction. During this time, you will also have to confront delicate issues such as communicating the change to employees and clients.

#### WHAT IS DUE DILIGENCE?

The term “due diligence” is used by lawyers and accountants to describe the process of investigating, analyzing and evaluating the material facts underlying a potential transaction. The purpose of due diligence is to allow each party to a planned transaction—in this case the sale of your publishing company—to conduct a careful review of the claims made by the other party relating to the transaction. For example, in your selling document you will disclose financial information related to your company. The purchaser will want to—and should be entitled to—review the accounting records that support the financial facts set out in your selling document. Likewise, you will want to review the accounting or banking records that support your potential purchaser’s claim that he or she has the financial resources to conclude the transaction. In most cases, you will engage your lawyer and/or accountant to assist with or even manage the due diligence process. Keeping carefully organized and current financial, legal and operational records is critical to ensuring that the due diligence process proceeds in a smooth and cost-effective manner.

## Managing Your Advisors

From the outset, succession planning involves careful management. You will have to manage how you disclose your plans to employees and clients; you will have to manage how and when external parties, such as competitors, learn of your plans. Often overlooked, however, is the retiring owner’s need to manage their interaction with advisors. This aspect of the succession-based selling process is very important because professionals’ time is expensive and managing your use of their time is critical to ensuring that your succession plan is implemented in a cost-effective manner.

As much as you look to your advisors for their expertise, resist the common inclination to allow them to control the process of selling your business. As the selling owner, you can manage your interaction with your advisors by having a strong understanding of what you need from each advisor during every phase in the process. To make effective use of your meetings, ask them which documents and pieces of information they require of you at each given point; be prepared for each meeting. Approach your telephone and electronic communication with your advisors in the same way: plan for each telephone call or email carefully and try to organize your questions and issues for them into comprehensive briefs that can be delivered in one package rather than lots of individual questions and instructions. In most cases your advisors will bill you for their time in increments of an hour (six minute intervals, for instance) and so even if you can save minutes of their time by organizing and prioritizing your instructions to them, you can avoid unnecessary costs and make more effective use of their services. Although it is likely that your interaction with your accountant, your estate and business lawyers, and a transition consultant will overlap, you don’t necessarily need to hire all of them right off the bat. You will look

to your accountant early on in the process for assistance in preparing your bookkeeping and financial records and determining the company's value, all of which you may share with potential buyers during the due diligence phase. Your accountant may also provide you with advice on the income taxation consequences of your succession plan, and may be able to help you minimize your tax liability. You can appeal to your lawyer for general advice on the legal aspects of a business sale, for advice on the preparation of your records and files for the buyer's due diligence process, for an understanding of different methods of disposition, and for assistance in negotiating the terms of sale of the company. Finally, you might choose to solicit the assistance of a transition or change management consultant once you have secured a buyer. These consultants can be of great assistance in dealing with less calculable matters, such as the reaction to the change of employees and clients, and the integration of new leadership into the existing culture.

## Leadership Change

It is not uncommon for people to become anxious during times of change, especially when the change involves the introduction of new leadership. Authors will want to know that the change will not affect your company's commitment to, and the publication plans for, their books. Employees will want to know whether their jobs are secure and that the new owner will allow them to retain their positions and voices within the company. To manage the change effectively, consciously and carefully shape your communication with employees, authors, suppliers and partners. Emphasize the positive aspects of the change, including the fresh ideas for growth and direction that the new owner can bring to the company. By sensing your confidence in your successor, employees

### WHAT ARE YOU SELLING?

If your publishing business is operated as a corporation, you will have to make a choice between selling the shares of the corporation and selling the assets owned by your corporation to your successor. Your lawyer and your accountant will assist you in making this decision, but it useful to have an understanding of the basic characteristic of each approach before engaging the professionals. In the share sale scenario, you will transfer your shareholdings in the corporation to the buyer. These shares are your legal evidence of ownership of the company and by transferring them (and receiving payment for them as well as the satisfaction of any conditions contained in the share sale agreement) you effectively transfer ownership and control of the company—including all of its assets and liabilities—to the buyer. In the asset sale scenario, you (more precisely, your corporation) will transfer the assets—all or some, as determined by your negotiation with the buyer—of the corporation, but the corporation itself does not become the property of the buyer. For example, you might agree to transfer or assign only a portion of your backlist—more specifically, the intellectual property assets underlying that portion of your backlist. Certain liabilities may also be assumed by the buyer in an asset-sale scenario, again as determined by your negotiation with the buyer.

and authors will likely feel less anxious about the change. Although enthusiasm is important, being honest about potential changes in the company's size and structure is crucial. To minimize the inevitable anxiety brought about by change, you can also create opportunities for employees to meet the new owner; both parties will appreciate the opportunity to become comfortable with each other while you are still in the scene. For more information on this topic please refer to *Succession Planning for Book Publishers: Human Aspect of Succession Planning*.

## The Selling Document

A selling document markets your business to potential buyers. As a marketing tool, the selling document presents your company and the Canadian publishing industry in an attractive but honest light. As an educative tool, this document gives potential buyers sufficient information for them to determine whether they are interested in your business and at how much they might value it.

Remember to include the following information in your selling document:

- > 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.

As this marketing document will undoubtedly contain sensitive information, ask all recipients to sign a letter of confidentiality. For more information on preparing a selling document, please refer to *Succession Planning for Book Publishers: A Guide to Outsider Succession*.

## Expect the Unexpected

The process of preparing your company for sale can be described in a well-organized, linear fashion, but the reality is that often several components of the process can and sometimes must occur simultaneously, certain components will take much more or much less time than expected, and it is not unusual for a seller to find him or herself repeating some steps as new information comes to light or as different candidate buyers come to the fore. In other words, despite careful planning and management of the selling process, you must be prepared for the unexpected and remain flexible and open to change as the process unfolds. Although the process of sale will be unique for each transaction, understanding the typical process of sale will help guide you through the intricacies of your particular situation.

## 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*