Strategizing for Success -
Embarking on the Sale & Purchase of Publishing Companies

PubWest Annual Conference
Portland, Oregon
February 10, 2017

Howard Fisher, The Fisher Company
Doug Pfeiffer, Douglas Pfeiffer Consulting
Jon Tandler, Sherman & Howard L.L.C.

Moderator: Bill Fessler, American Traveler Press
Strategizing for Success – Program Outline

• Introduction of Panelists
• Transaction Types
  – Legal Documents
  – Primarily Asset Sales
• Valuation Metrics
  – Looking for Trends
• Operational Logistics
  – Sales & Distribution before, during, and after sale
.Transaction Labels – the Detail is What is Important

• Labels are just that and should not be relied on as accurately depicting a transactional structure.

• A ‘merger’ between unrelated parties is an ‘acquisition’, however, an ‘acquisition’ is not necessarily a ‘merger’ – it may be a share or asset acquisition or some other structured transaction.

• Every transaction is different – no two deals are alike – there may be macro similarities from one to the next; however, focusing on the detail is what is critical.
General Transaction Types

Buyer Purchases Seller’s Equity (Stock Deal)

• Buyer purchases issued and outstanding equity (shares of stock, partnership or limited liability company (LLC) interests) from the owners of Seller/the owners of that equity.

• When a buyer purchases equity, it is acquiring the publishing business as a going concern. A Seller may want this structure so that the Buyer assumes liabilities; in rare cases, a Buyer may prefer this structure depending on certain factors, including whether or not Seller’s contracts will be assignable if the equity is not purchased, the Buyer’s operating history (whether there are likely or not to be hidden liabilities), and the Buyer’s ability to contractually manage the risk of unanticipated, hidden liabilities.
General Transaction Types

Buyer Purchases Seller’s Equity (Stock Deal) (cont.)

• The reality is that acquisition transactions today are rarely structured as stock or equity deals - Buyers want to purchase selected assets and not the overall legal concern which carries with it known and unknown liabilities.
Buyer Purchases Substantially All of Seller’s Operating Assets (Asset Deal)

• Buyer purchases all or substantially all of the operating assets of Seller – acquisition deals today are almost always structured this way – Buyer expressly excludes assuming liabilities of Seller unless expressly negotiated and listed in the acquisition Disclosure Schedules.

• What assets are purchased is circumstantial depending on the particular Buyer and Seller. Certainly publishing contracts and subsidiary rights licenses; also potentially distribution and other contracts and the underlying books and records germane and necessary to continuing to publish the Seller’s titles and account to and pay author’s royalties on same.
Buyer Purchases Substantially All of Seller’s Operating Assets (Asset Deal) (cont.)

• The assets acquired are set forth in detailed Disclosure Schedules. They list the specific contracts and licenses to be assigned by Seller and assumed by Buyer along with other hard assets, if any (such as furniture, fixtures and equipment/computer equipment if applicable).
Prior to Definitive Acquisition Agreement.

- Non-Disclosure/Confidentiality Agreements (NDAs); not ‘boilerplate’ and should not be regarded or treated as such; typically entered into prior to Buyer diligence.

- Letters of Intent/Letter Agreements/Term Sheets; these are intended to set forth material, macro transaction terms; here also labels are not helpful and the detailed provisions of such documents govern their non-binding or binding effect.
Main Acquisition Agreement (Assume Asset Purchase Agreement) – Basic Terms

- Macro recitals (factual circumstances) underlying the acquisition transaction
- Contracting Parties (parties to the contract)
- Contractual Definitions
- Description of the Transaction and Terms (consideration ($))
Contents of Transaction Documentation

- Main Acquisition Agreement (Assume Asset Purchase Agreement) – Basic Terms (cont.)
  - For an asset purchase transaction, description of the assets transferred with detailed supporting Disclosure Schedules, express carve outs for assets not transferred and statement of liabilities assumed (if any);
  - Detailed representations and warranties from the Seller as to the facts and matters pertaining to the condition and operations of the selling business and its assets; interposed with the Disclosure Schedules;
Main Acquisition Agreement (Assume Asset Purchase Agreement) – Basic Terms (cont.)

- Special provisions such as special conditions precedent to closing, holdbacks in the consideration paid to Seller until certain events occur, allocation of certain revenue or expense items or liabilities, handling of special items or problems or potential liabilities;

- Necessary regulatory filings and/or third party consents (could be governmental or contractual);

- Arrangements as to transition of employees from Seller to Buyer; typically as applicants and new hires by Buyer;
Contents of Transaction Documentation

• Main Acquisition Agreement (Assume Asset Purchase Agreement) – Basic Terms (cont.)
  – Conditions to closing
  – Closing date and required deliveries
  – Post-closing covenants (non-compete provisions, confidential information, communications to third parties, recordation of assignments of IP registrations, filing of lien releases, other)
  – Seller and buyer indemnification and related required procedures
  – Governing law; dispute resolution
  – General provisions
• M & A transactions tend to take more time of personnel, and longer to consummate, than parties think they will;

• For the publishing executive working on an M & A transaction, the challenge is to also do one’s regular job given the amount of time required of the parties and inherent distraction of a transaction;

• Seller and Buyer parties should work with professional advisors who are experienced at the tasks and processes required for a successful transaction; and

• Seller and Buyer parties, from the first to the final drafts, should read transactional documentation critically and ask questions and provide comments to advisors.
Valuation

Financial Metrics, Trends, and Transaction Types
Value Drivers

Revenue Trend Line
Profitability
Attention to Detail
• **Revenue Growth**
  – Core Categories
  – Frontlist—backlist
  – Proprietary titles

• **Profitability**
  – Repeatability and sustainability

• **Attention to Details**
  – Legal structure
  – Completeness of agreements
  – Strong balance sheet = negotiating strength
All Formal Valuations Must Consider

3 Approaches

1. Income Approach
   A. Discounted cash flows—forward looking
   B. Capitalized earnings—trailing looking

2. Market Approach
   A. Guideline comparable sales—specific sectors
   B. Public company comparables—to match target

3. Asset Approach
   Realizable value of selling assets
   – Not as a going concern
1. Income Approach

Method A: Discounted Cash Flow Tax-Effectected
### 1. Income Approach

**Method B: Capitalized Historic Earnings**

<table>
<thead>
<tr>
<th>Capitalized Earnings Method</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Profit Pre-Tax</strong></td>
<td>$292,189</td>
<td>$387,222</td>
<td>$483,106</td>
<td>$405,582</td>
<td>$454,606</td>
<td>$2,022,706</td>
</tr>
<tr>
<td><strong>EBITDA Return on Sales</strong></td>
<td>32.0%</td>
<td>36.2%</td>
<td>43.1%</td>
<td>38.9%</td>
<td>42.9%</td>
<td></td>
</tr>
<tr>
<td><strong>Weighting of Net Profit Pre-Tax</strong></td>
<td>10%</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>30%</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td>$29,219</td>
<td>$38,722</td>
<td>$96,621</td>
<td>$121,675</td>
<td>$136,382</td>
<td>$422,619</td>
</tr>
<tr>
<td>5-Year Weighted Average Earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$422,619</td>
</tr>
</tbody>
</table>

**10.5 PE Bloomsbury=9.52 Cap**

- **Imputed taxes at 34%**: $(143,690)
- **Tax-affected EBITDA**: $278,928
- **Capitalization rate**: 9.52%
- **Too high. Unjustified through Cash Flow**
- **Calculated value**: $2,929,921

**Berkshire Hathaway 5.5x trailing earnings**

- **Cap = 18.18**
- **Imputed taxes at 34%**: $(143,690)
- **Tax-affected EBITDA**: $278,928
- **Capitalization rate**: 18.18%
- **Calculated value**: $1,534,260
2. Market Approach

Method A: Public Company Comparisons

- Revenues, Growth, Profitability
- Illustrations of Levels—Market Cap/Revenues
- Trade
  - EDC 0.35
  - Quarto 0.48
  - Scholastic 0.88
- Trade / Academic
  - Bloomsbury 1.03
- Academic / Journal / Professional
  - John Wiley 1.84
  - Informa 4.44
2. Market Approach

Method B: Guideline Company Sales

<table>
<thead>
<tr>
<th>Seller</th>
<th>Purchaser</th>
<th>Cur Use</th>
<th>Use</th>
<th>Use</th>
<th>Market Value of Invested Capital</th>
<th>Sale Date</th>
<th>Net Sales</th>
<th>MVIC/Sales</th>
<th>MVIC/EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvard Common Press</td>
<td>Quarto Publishing Group USA Inc.</td>
<td>USD</td>
<td></td>
<td></td>
<td></td>
<td>2/3/16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Privately-Held Publisher</td>
<td>Privately-Held Publisher</td>
<td>USD</td>
<td>A</td>
<td>B</td>
<td></td>
<td>12/31/15</td>
<td></td>
<td>1.08</td>
<td></td>
</tr>
<tr>
<td>Stackpole Books</td>
<td>The Globe Pequot Press Inc.</td>
<td>USD</td>
<td></td>
<td></td>
<td></td>
<td>12/23/15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Privately-Held Publisher</td>
<td>Privately-Held Publisher</td>
<td>USD</td>
<td>A</td>
<td>B</td>
<td></td>
<td>10/31/15</td>
<td></td>
<td>0.85</td>
<td></td>
</tr>
<tr>
<td>Cargo Publishing</td>
<td>Freight Books Ltd.</td>
<td>USD</td>
<td></td>
<td></td>
<td></td>
<td>9/10/15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Privately-Held Publisher</td>
<td>Privately-Held Publisher</td>
<td>USD</td>
<td>A</td>
<td>B</td>
<td></td>
<td>8/31/15</td>
<td></td>
<td>1.07</td>
<td></td>
</tr>
<tr>
<td>Schibsted Forlag AS and EBOK</td>
<td>Vigmnostad &amp; Bjerke A/S</td>
<td>USD</td>
<td></td>
<td></td>
<td></td>
<td>6/17/15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nicholas Brealey Publishing</td>
<td>John Murray Press</td>
<td>USD</td>
<td></td>
<td></td>
<td></td>
<td>6/17/15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Egnost USA</td>
<td>Lerner Publishing Group</td>
<td>NA</td>
<td></td>
<td></td>
<td></td>
<td>2/25/15</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Ivy Press Limited</td>
<td>Quarto Group</td>
<td>USD</td>
<td>A</td>
<td></td>
<td></td>
<td>2/25/15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orsoggi Publishing, Ltd.</td>
<td>Bloomsbury</td>
<td>USD</td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>12/22/14</td>
<td></td>
<td>0.60</td>
<td>7.2</td>
</tr>
<tr>
<td>Les Editions Cardinal inc.</td>
<td>Groupe Quebec Americque</td>
<td>USD</td>
<td></td>
<td></td>
<td></td>
<td>11/21/14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Black Dog &amp; Leventhal</td>
<td>Hachette Book Group</td>
<td>USD</td>
<td>A</td>
<td></td>
<td>C</td>
<td>11/20/14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Igloo Books Limited</td>
<td>Bonnier Publishing Limited</td>
<td>USD</td>
<td>A</td>
<td></td>
<td>C</td>
<td>10/31/14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Harlesgan Enterprises Ltd.</td>
<td>Harper Collins Publishers Limited</td>
<td>USD</td>
<td>A</td>
<td></td>
<td>C</td>
<td>8/1/14</td>
<td></td>
<td>1.11</td>
<td>7.8</td>
</tr>
<tr>
<td>Morris Communications</td>
<td>Rowman &amp; Littlefield</td>
<td>USD</td>
<td>A</td>
<td>B</td>
<td></td>
<td>5/22/14</td>
<td></td>
<td>0.67</td>
<td>NA</td>
</tr>
<tr>
<td>Publications International, Ltd.</td>
<td>Phoenix Media</td>
<td>USD</td>
<td>A</td>
<td>B</td>
<td></td>
<td>5/14/14</td>
<td></td>
<td>0.76</td>
<td>NA</td>
</tr>
<tr>
<td>F+W Media, Inc.</td>
<td>Tincum Capital Partners LP</td>
<td>USD</td>
<td>A</td>
<td>B</td>
<td></td>
<td>5/5/14</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Privately-Held Publisher</td>
<td>Privately-Held Publisher</td>
<td>USD</td>
<td>A</td>
<td></td>
<td>C</td>
<td>4/30/15</td>
<td></td>
<td>1.00</td>
<td>NA</td>
</tr>
</tbody>
</table>

A-Known MVIC and Net Sales  A   1,102,172,000  1,104,996,000  1.00  NA  
B-Selected Transactions < $100mm  B   149,172,000  229,996,000  0.65  NA  
C-Known Earnings  C   449,500,000  431,040,000  1.04  7.8
### 3. Asset Approach

#### Realizable Values

**Balance Sheet**

As of December 31, 2016

<table>
<thead>
<tr>
<th></th>
<th>As of December 31, 2016</th>
<th>Asset Approach</th>
<th>Adjusted 2016 YE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016 YE</td>
<td>Debit</td>
<td>Note</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Checking</td>
<td>190,000</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Savings</td>
<td>105,000</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Money Market</td>
<td>73,000</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>124,000</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Advance on Royalties</td>
<td>8,500</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Prepaid Taxes</td>
<td>3,900</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>310,000</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>814,400</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Equipment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer Equipment</td>
<td>131,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture &amp; fixtures</td>
<td>25,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Truck</td>
<td>9,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery &amp; equipment</td>
<td>27,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leasehold Improvements</td>
<td>75,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>(214,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Equipment</strong></td>
<td>53,000</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent Deposit</td>
<td>2,000</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total Other Assets</strong></td>
<td>2,000</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>869,400</td>
<td>$</td>
<td></td>
</tr>
</tbody>
</table>

**Liabilities and Net Tangible Assets**

|                      |         |       |      |        |         |
| **Current Liabilities** |         |       |      |        |         |
| Accounts Payable     | 125,000 | -     |      |        | 125,000 |
| Royalties Payable    | 21,000  | -     |      |        | 21,000  |
| Pension Payable      | 36,000  | -     |      |        | 36,000  |
| Federal Payroll Tax Payable | 15,000 | -     |      | 15,000 | -       |
| State Payroll Tax Payable | 3,000  | -     |      | 3,000  | -       |
| Sales Tax Payable    | 900     | -     |      |        | 900     |
| **Total Current Liabilities** | 200,900 | -     |      | 200,900 | -       |
| **Total Liabilities** | 200,900 | -     |      | 200,900 | -       |
| **Total Equity**     | 668,500 |       |      |        |         |

**Net Tangible Assets**

511,500
Recap:

3 Approaches

1. Income Approach—Tax-Effect
   A. Discounted cash flows
   B. Capitalized earnings

2. Market Approach
   A. Public companies—careful
   B. Guideline comparable sales

3. Asset Approach
   Realizable value of selling assets
Other Acquisition Strategies

• **Financial**
  – # Years to pay back investment
  – Comparison to other investment options

• **Functional**
  – Leverage operations capacities
  – Leverage sales force / channel penetration

• **Strategic**
  – Establish #1 or #2 position / share
  – Enter new category / channel
Adjustments to Value

Positive
- Sales Growth
- Profitability
- Competitive Share
- Category Strength
- Author Strength
- Author Agreements
- Account
- Rights

Negative
- Losses
- Decreasing Margins
- Inventory Aging
- Debt
- Expiring Licenses
- Legal Issues
- Accounting Issues
Bridge Building

Relationships Add Value—Impossible to Quantify

Seller Buyer

[Image of the Golden Gate Bridge]
Range of Values by Sector

- Book Packagers, Distressed Trade
- General Trade
- Academic, Education
- Medical, Professional
- Journal, Professional, Academic
Trade Trend

Interpretation

Trade Publisher Range by Year Sense of Market

- Low
- High
Real Deals in the Marketplace

- Cash for Assets
- Cash + Employment, consulting, non-compete
- Cash + Terms (3-year note)
- Cash + Royalty Override (5-year stop)
- Cash + % of Gross Margin with Cap (3-5 years)
- Merged Assets—Shared Equity in New Entity
- Donation to University Press or Non-Profit
- Prearranged and Prepackaged Restructuring
- Bankruptcy, Trustee Sale
Other Deals in the Marketplace

- **Electronic Rights**
  Generally avoid in a significant print business

- **Audio Rights**
  Could be good with the right partner

- **Digital Library and Database Rights**
  Consider non-exclusive with term
Deal Structures

- **99% Asset Purchase in Some Form**
  - Asset Purchase versus Stock Sale -25%
  - Stock sale lacks amortization of goodwill

- **Few Stock Sales <$20M**
  - Including Section 338 C-S

- **Deal Structure Influence by Business Form**
  - C, S, LLC, P, SP

- **Taxable Event**
Buyers
(Determiners of Value)

• **Want**
  – Repeatability of income
    ▪ Customer base
    ▪ Title base—frontlist/backlist

• **Avoid**
  – Prospects of legal issues
  – Risk of returns by channel
  – Concentrations of sales and AR
  – Stale inventory
  – History of losses
Advisory Team

• Legal
  – Business form, author agreements, employment agreements, distribution, licenses
  – Trusts, insurance, succession, sustainability

• Accounting
  – CPAs
  – Accrual, GAAP

• Brokerage
  – Publishing business as a specialty
Sales and Marketing

Before and After Ownership Transfer
Before

Successfully Handling Staff

• Who needs to know about the sale?
• Continue to operate at full strength
• Sales trending up or down
• New title acquisitions and development
• Employee retention packages
• Which jobs disappear?
Sales Strengths

• Sales expertise in speciality channels
• Account diversity vs. account concentration
• Regional, national, world and/or direct
• Top titles, accounts, and channels
• Explanation of sales results for past 5 years
Marketing Strengths

- Staff expertise in reaching category readers and seller’s customer base
- Sales conferences, trade & specialty shows, consumer shows
- Catalogs: print, electronic, trade, gift, other
- Social media: FB, Pinterest, Website, YouTube, Twitter, Google+, Instagram.
Integration: The Period After the Sale

- Notification to seller’s employees
- Notification to public – press release
- Notification to seller’s authors
- Notification to seller’s customers
- Notification to seller’s vendors
After

- Priority goal: minimize time gap to ship and invoice books to customers
- Title information transfer to buyer’s system
- Physical inventory transfer issues
- Seller notifies accounts of change in ownership
- Synchronize sales programs: seller/buyer
- Synchronize marketing programs
- Titles in development
Strategizing for Success - Panelist Contact Information

BILL FESSLER
bill@americantravelerpress.com
602.234.1574

HOWARD FISHER
howard.fisher@thefishercompany.com
520.547.2460

DOUGLAS PFEIFFER
douglas@douglaspfeifferconsulting.com
208.780.9923

JON TANDLER
jtandler@shermanhoward.com
303.299.8142