Print Business

How much is your ***business worth – now?***

Putting a dollar figure on a business in times of pandemic stress is complicated. Old methods no longer apply when buyers have to gauge how much lower revenue has to do with the lockdowns and how much value is still locked into the business. Richard Rasmussen looks at the issues for buyers and sellers.

"What's happened to the value of businesses over the pandemic?"

I get asked this a lot and my response is that the fundamentals of the methodology of business appraisals and valuations remain the same. However, more analysis now needs to be done on monthly sales over Covid, and the profile of the client base, in order to come to a realisation of a business's actual worth.

The methodology used now, compared to pre-pandemic, is the same. A print related business's value is commonly calculated on:

- The Sum of the Assets (SOA) – ie the value of the goodwill (client base) and hard assets (plant and machinery), or
- The Future Maintainable Earnings (FME) – a multiple of the normalised profits (EBITDA).

With SOA, goodwill is usually calculated as a percentage of current sales. The percentage needs to reflect the risk of client loss, and other factors such as gross margins, the type of client and the trend in sales. The purchaser's view on plant and machinery values usually differs from the seller's depending on what they will do with them. A purchaser who does not require plant will likely value it at 'quit' value, whereas a purchaser who wants plant is more likely to value it at 'market' value.

With FME, normalised EBITDA is established by removing one-off, non-recurring expenditure. Expenditure that is underrepresented in the accounts, like an owner paying themselves below market rates, is added in. One also needs to consider what the future normalised EBITDA may be. To establish that, we need to predict future sales. The multiple chosen is a function of items such as the risk of clients leaving, the market segment the business trades within, the customer profile, and trends in financial performance.

When the results of both methodologies are compared, the higher of the values is usually adopted as the business value.

What's changed with Covid?

When I appraise and value a business now, apart from asking to see the yearly financials, I also ask to see the monthly sales from over the pandemic period and a year before. This shows me the effect of Covid, and the trends during that period.

"Even if the profits are low, the client base is always in demand, because many businesses that have had a fall-off in sales are looking to increase sales."

I review the type of clients the business is servicing, with focus on the top 10 clients. Here I am looking to predict what level of purchases they will make in the future. For example, we know travel and events have been hit hard by Covid, but they are likely to return once those industries are back to normal.

Right: **Mergers: Potential to unlock multiple benefits for print businesses**

Overall, what I'm trying to determine is what the new level of sales will be once the pandemic ends. This is what the business purchaser is really trying to ascertain. Clearly there is a fair degree of guesswork in deriving an answer as we don't know what's around the corner.

However, once a future 'normal' sales level is determined, we need to look at what the profits will be at that level. We then go back to the usual methodology and make appropriate adjustments.

Is there a demand for print businesses?

Yes. But how they are purchased will depend on the market segment (ie digital, franchise, commercial offset, labels, packaging), the size of the business, and what the demand may be in that segment. Businesses need to ask themselves – who would buy my business within the segment, the trends, the client base and the profits? Then ask, would a buyer want it as a going concern or just for the client base?

Even if the profits are low, the client base is always in demand, because many businesses that have had a fall-off in sales are looking to increase sales. A client base purchase may be far easier than trying to grow sales organically, or hiring a sales representative.

What to do?

For those looking at whether the time is right to get out, the answer lies in the above commentary. Also, ask yourselves these questions:

1. What do you think your future sales will be? A review of your client base, the market segment you operate within and recent trends will provide the best guide.
2. What do you think future profits will look like at those sales levels?
3. When does your property lease and equipment rentals fall due?
4. What will happen to your equipment values in 12 months time?
5. Who is the likely type of buyer?

With regard to point three, be aware that the value of the business is only half of the equation. The other half is what you owe and what other assets you have. Deduct payouts on equipment leases, rentals, staff entitlements, property lease break payments, creditors, other liabilities and add what assets other that plant you have, such as debtors and cash in the bank.

And remember, it may well be a far better option to sell now rather than battling on, and perhaps have a role in the purchaser's business without the headache of running a business.

Need to find out more? Contact Ascent Partners. <richard@ascentpartners.com.au> *21*

Print21 analysis: Merger – an attractive option

An increasing number of print businesses are merging. February saw Elna Press become part of QLM Labelmakers, Clockwork Press become part of Quality Press, and Eastern Press merge into Neo.

Each had their own motivations, but in each case there is a common element, the consolidation of manufacturing. In these days when equipment is supremely reliable, there is a compelling logic for having two companies using the one piece of kit in one location for 20 hours a day, rather than two companies each having their own kit in their own premises operating for just ten hours a day. The cost base comes right down with equipment and premises costs halved, and there are myriad other benefits – if your one press operator is sick or on holiday you can hire the other guy's staff to cover you for instance.

In the case of Elna Press and Clockwork Press the ageing owners were looking at the future, and both evidently decided the best route was to merge into a similar business. Printshop owners reaching their 60s and 70s face a stark choice, especially if they have no son or daughter stepping up to take over, that choice being either invest in new technology, or sell up. Laying your house on the line to buy new technology when you are approaching retirement is not an attractive option. But in many cases the owners want the business to continue. The option then of merging, on whatever terms, becomes attractive, as the other company handles all the manufacturing, leaving the business owners free to focus on sales and servicing the customers, if the brand continues, which is what is happening with all these cases. For Bruce and Wendy Hawley at Clockwork Press in Perth, merging into Quality Press means that they need not concern themselves with manufacturing – investing in kit, employing staff, maintaining equipment – they can go out and sell knowing that the print production will be taken care of.

Similarly for Eastern Press in Melbourne. The sudden passing away of founder and owner Frank Hilliard two years ago left his widow and the Eastern management team with some stark choices. Merging into Neo with its young go-ahead management team is clearly a great option, equipment will be optimised, and Eastern's sales staff can go out with full confidence.

QLM's acquisition of Elna was also a win-win for both parties, although slightly different to the other two, as it was more strategic for QLM, which wanted a Victoria manufacturing base to counter the rise of the multinationals MCC and CCL in Australia.

However, whether strategic, or practical, or both, print company mergers do offer real benefits, and we are likely to see many more as the years pan out.