



## **Selling in a Buyer's Market: How to Position Your Community Newspaper for Sale in a Down Market**

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### **Introduction**

In a few short years, the market for community newspapers has shifted from a “sellers market” to a “buyers market” as many newspaper companies that had historically bid-up the price of newspaper properties have been forced to the sidelines to weather the current recession. Acquisition-minded for much of this decade, most newspaper companies today are internally focused on improving their own operations while paying down debt.

With fewer corporate buyers currently in the market for community newspapers, and financing difficult to come by for smaller operators, valuations for dailies and weeklies have declined from the earlier part of this decade. On average, we estimate community dailies and weeklies have lost 25 percent of their value from a few years ago.

While it is impossible to predict what the market for newspapers will look like over the next several years, we believe values for these businesses will stabilize as the general economy improves. Even so, we doubt newspaper values for dailies will reach their previous highs. Like housing values, stock prices, and other economic bubbles that ruled most of this decade, newspapers too have already settled to more reasonable valuations.

The question is, where does that leave you as the owner of a community newspaper who may be pondering your own timetable and exit strategy from this business?

I don't purport to have any easy answers for you today on timing. Any fair-minded investor will tell you that trying to “time the market” is often a fool's game – a function more of luck than skill. Moreover, we are in uncharted territory – a rapidly transforming media landscape in the midst of a relentless recession. Your decision on when to sell should be a personal one, guided by your own unique situation, family needs, retirement plans, etc.

The good news: community newspapers are still an excellent business, especially when you compare them to most other businesses. In fact, you should consider yourself fortunate that most newspapers – and many profitable niche publishing businesses – still have significant residual value. It is easy for us to forget that many other small business owners never realize a pot of gold at the end of the rainbow: their owners are forced to shut their doors.

If you are a owner/publisher planning to sell your newspaper within the coming months or over the next several years, there are some things you can start doing now to maximize your sales price at exit. These considerations have always been important prior to the sales process, but they even more relevant in today's bear market.

As the intermediary/broker cliché goes, when it comes to valuating and selling your business: “It's all about cash flow.”

## TIP # 1: Clean Up Your Financial Records

If you are a family-owned business (which I assume most of you are), you run your business in such a way as to minimize your taxes. In other words, you incur as many expenses as possible so that you don't show a profit at the end of the year.

That's a smart move when you are the owner operating the business, but works against you when selling your business. You want to show positive "cash flow" or profits, which is technically defined as earnings before interest, taxes, depreciation, and amortization (EBITDA). And when it comes to selling your business, the more EBITDA the better, because buyers will ultimately value your business based on a multiple of this number.

The following are common examples of non-operating expenses that you should stop running through the business (preferably two to three years prior to sale) to improve cash flow. While any good intermediary/broker will add back these expenses to cash flow in a well-done marketing prospectus when you go to sell the business, this option is never as good as showing the true operating cash flow of the business over a multi-year period. It gives the buyer an added level of confidence that these historical profits are real and attainable.

Examples of non-operating expenses you should curtail prior to sale include:

- **Excess owner salary** – If you are paying yourself more than the market rate for a similar position because of your ownership status, you should consider adjusting your income downward to market and take more net income (profits) at the end of the year.
- **Officer's Salaries/Other Family Compensation** – If you are paying family members who might not be contributing to the business, you should consider reducing or eliminating this payroll expense to increase cash flow. Instead, pay them out of net income you receive at the end of year.
- **Travel , Meals & Entertainment** – Any of these discretionary spending items unrelated to ongoing business should be minimized or halted to increase cash flow.
- **Auto Expenses** – While a reasonable amount of auto expense is expected, in many cases this number exceeds what a new owner would require to run the business. Try to restrict auto expenses to only those needed to run the business.
- **Building Rent** – If you own your own building, it is held in a separate corporation that charges monthly rent to the newspaper, and you are not interested in retaining it with a sale of the newspaper, you should consider folding the building in as an asset of the newspaper. Most buyers prefer to own the real estate associated with the business, and the lack of rent expense will significantly boost the bottom line of the newspaper. In general, you will get more value out of the business and real estate by packaging these assets together. The exception: if you are sitting on a prime piece of highly desirable commercial real estate that could be easily marketed and sold separately.
- **Non-Profit/Charitable Donations** – You may consider reducing overly generous community contributions to non-profits for a few years prior to sale.
- **Professional Fees** – These fees to consultants and other professionals should be kept to a minimum.
- **Country Club Memberships/Other Discretionary Items** – You should identify and eliminate all other "discretionary expense" items.
- **Bad Debt Expense** – You should not be carrying bad debt on the books more than 120 days old. Most buyers will not pay for receivables more than 90 days past due. Get more aggressive on collections and don't allow large balances beyond 120 days to accrue before writing them off.

## **TIP #2: “Smartly” Reduce Operating Expenses**

In general, we don’t advocate that you make significant operating expense reductions prior to sale. Most savvy buyers will see right through this as an attempt to artificially boost cash flow. But in these difficult economic times, we would argue that you need all the leverage you can get prior to a sale. The key is to be smart about how you approach it.

The key to any expense reduction is to ask yourself whether or not it is sustainable over the long term without jeopardizing the publication’s quality. Admittedly, that is a subjective assessment, and you need to be judicious here. In the end, the ultimate litmus test is whether you sincerely believe you could live with a particular reduction for the long term.

You should begin with a department by department (news-editorial, advertising, circulation, etc.) analysis of expenses. How do you know if you are in line with your peers? One excellent source is the Inland Press Association’s Cost & Revenue Study. This study is an annual survey of weeklies and dailies broken down by circulation and revenue. This study publishes group averages of revenue and expenses by department, providing a benchmark of where you should be operating in any given category for a newspaper of your size. Caution: the study is not perfect, and you should be careful not to overemphasize its relevance in any one area. Every market and newspaper operation is unique, but it is a useful benchmarking tool.

The following are some of the most important financial statistics you should compare to the Inland study:

- Compare Full Time and Part-Time Employee Counts (in total and by department)
- Compare Total Newspaper Payroll Expense (in total and as a % of revenue)
- Compare News-Editorial Expense (in total and as a % of revenue)
- Compare Advertising Expense (in total and as a % of revenue)
- Compare Circulation Expense (in total and as a % of revenue)
- Compare Production Expense (in total and as a % of revenue)
- Health and 401(K) Benefit Analysis – Are you paying too much for health insurance? Get Competitive quotes? Are you being too generous in 401K matching benefits?

## **TIP #3: Clean-Up Circulation**

Circulation is one of areas where there is the most potential for overstatement. In most instances, the overstatement of paid and/or free circulation is not intentional. Regardless, it is one of the most scrutinized areas by savvy buyers, and you will be better off when you go to sell your paper if your stated circulation is accurate, both on your rate card and on your books. Significantly overstated circulation can be a “deal killer.” Address this problem now, and it will pay dividends down the road when you put your newspaper on the market.

We are often surprised that many owners are not aware of how much they may be overstating circulation. It is often the simply the result of sloppy accounting -- carrying long overdue subscribers on the books, counting gross versus net paid single copy circulation (i.e. not accounting for single-copy returns), or publishing a gross free distribution number based on the number of papers printed instead of the number of copies distributed. In any case, you should get to the bottom of it now or you will pay for it later – either in an adjusted sales price or worse: the lost of a serious buyer because of concerns over your credibility.

#### **TIP #4: Get Aggressive On Growing Revenues**

We know that growing revenues in the current environment is much easier said than done. Even so, it should not be business as usual. Potential buyers want to see a positive revenue trend line (preferably over the past two to three years) to make them feel secure about buying your business. To grow revenues in this difficult economy, you need to look at non-traditional newspaper advertisers as new revenue sources.

Are you leaving significant ad revenue on the table in your market? How do you know? Once benchmark is to apply the 1% of retail sales rule: If your total annual newspaper ad revenue equals less than 1% of your home market's (county or city zip code, depending on how your market is defined) retail sales for that same year, you may be falling short of the market's potential.

Some notable points on growing revenues:

- **Go After Non-Traditional Revenue Sources** - Service and professional businesses are very often the most neglected revenue sources for newspapers. Hire a part-time telemarketing team to cold call on these businesses, and offer enticing contract rates to get these businesses advertising regularly in the paper.
- **Get Busy on the Internet** - We know it's a challenge, but at this point in the evolution of the Internet community newspaper should on average be generating on-line revenue equal to or greater than 10% of total ad sales. Anything less is unacceptable, and suggests that you are not putting enough emphasis on your digital products. If you can't cross-train your own sales people to sell it, outsource it. There are a number of options out there to help community papers manage their web sites and sell local advertising.
- **Review Ad and Circ. Rates** – We know that raising ad rates in the current economy is not a popular option with advertisers, but depending on your competitive position in the market, and your past history with rate increases, it may be wise to begin ratcheting-up rates over the next several years. We have found that most family-owned businesses have historically low ad and circulation rates, perhaps because their owners are so connected to the community and they are more reluctant to raise rates for fear of backlash. But raising rates on one of the first things new owners will do after a sale, and it may be one of your only options to grow revenue.

#### **TIP #5: Get an Third-Party Valuation/Appraisal of Your Business**

Whether you decide to explore a sale of your paper today or put it on the market at a later date, there are a variety of good reasons for getting a fair market appraisal of your newspaper. Appraisals are for different reasons, including to determine the fair market value prior to sale, buying or selling a partial ownership interest, for obtaining financing, and for estate, gift, inheritance, and income tax purposes.

The following are conditions under which you might consider each:

- **To Determine Fair Market Value for Internal Planning** - How can you do financial planning to determine when to exit the business if you don't have a realistic sense of what the business is really worth? The biggest mistake sellers make is putting a newspaper on the market with unrealistic price expectations. By then pulling the newspaper off-the-market because offers came in lower than expectations, you end-up as "damaged goods" situation, making it harder to sell the next time around. Getting an objective fair market appraisal of your business will help you plan your exit strategy with realistic expectations.
- **Buying Out a Partner** – Partner buy-outs can be contentious, and it is generally in the majority owner's best interest to get a fair market appraisal. While there may be concern that a third-party valuation will come in higher than the majority owner believes they can negotiate with a minority partners, minority

ownership stakes are subject to significant discounts for lack of liquidity and marketability. There is a valuation science behind these discounts, and because majority owners rarely factor these discounts in, they often end up paying more than market value for a minority block of shares to buy-out their partners interest in the company. Similarly, majority shares are often undervalued if not valued by a professional appraiser because managerial/company control is not factored in.

- **Inheritance, Estate, Gift Tax Purposes** – If you want to pass ownership shares of your newspaper company to heirs, now is an unusually good time to get an appraisal for estate/tax planning purposes. These third-party appraisals are required by the IRS. With newspaper valuations currently at a recent historical low mark, it is a good time to get such an appraisal and begin tax-free gifting of shares to your relatives.
- **Obtaining Financing** – Banks will often require a fair market value of the business, particularly prior to providing lending to an owner/operator attempting to buy a paper or seeking a line of credit for his business.

#### **Tip # 6: Hire an Intermediary/Broker who Specializes in the Newspaper Industry to Sell your Business**

- **A Full-Time Job** – Selling a business is a full-time particularly in this challenging economy. The intermediary strategically the company for sale.
- **Prepares Professional Marketing Prospectus** – A professional intermediary/broker will prepare a book/prospectus of your business and present it in the most attractive light possible.
- **Works with Prospective Buyers** – An intermediary will execute confidentiality agreements with prospective buyers, make contact with all logical buyers, hunt for individuals or other companies that may have an interest in buying your business, prequalify them, and work with all of these prospects to secure financing, negotiate and close the deal.
- **Arms Length Transaction** – Selling is an emotional process for the buyer and the seller, and nothing gets in the way more in a deal than human emotions. An arm's length transaction through an intermediary mitigates the potential for conflict and ensures a smooth transaction.
- **Allows Owners to Focus on their Business** – Selling a business can take many months. Hiring an intermediary allows the owner to keep his/her eye on the bottom line until the business is sold so as to maximize the sale price.