



## Is Now The Time to Sell Your Signs and Graphics Business?

I often get asked by signs and graphics shop owners, “How is the market for selling my business?” This is then followed by brief references to the economy and whether the business transaction marketplace has recovered to prerecession levels. I’ll get to the answer, but first a little background.

Sign and graphics shops, like most businesses, are typically sold based on a “multiple of earnings.” “Earnings” can be assessed in slightly different ways depending on the size of the business, and the “multiple” is a factor that varies based on the industry and size of the company. The higher the earnings are, typically the higher the multiple may be. As an example, if a business has earnings of \$100K, and the typical multiple for that industry and size has been established at 2.5, then the value of the business is calculated as  $2.5 \times \$100K = \$250K$ . However, if a business in the same industry generates earnings of \$350K, then the multiple may be 3 or greater, generating a value in excess of \$1.05M ( $3 \times \$350K$ ).

Obviously, market timing can have an impact on the selling process, particularly if one is comparing the statistics during

the lowest depth of a recessionary period versus the highest peak of a period during an economic boom. In general, multiples do tend to increase slightly as the economy improves, especially if finance lending loosens accordingly. However, these variations are minimal except at both ends of the spectrum, and the biggest cause of the statistical decline is often more directly related to the overall earnings within the group rather than the actual multiple a buyer may pay for the same earnings at a different point in time.

Pratt’s Stats, a leading private company transaction database, provides transactional detail history on more than 22,000 private company transactions. The statistics are gathered from a variety of sources, including business brokers, mergers and acquisition specialists and investment bankers. While statistics can be manipulated to make almost any case and are only as reliable as the reporting received, let’s look specifically at the sign industry over the last decade — before the great recession (2004–2008) — versus the period of 2009 to present day as the economy has improved.



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The earnings multiple factor for sign business transactions was slightly higher in the “prior to 2009” group than the later group; however, the difference is minimal, and when considering the average value of assets included in the transactions, there is literally no difference. The notable period where there was a difference, and a significant one at that, was in 2010 and a portion of 2011. The multiple factor dropped by greater than 16 percent, and the total number of transactions for the industry was minimal. As you may recall, this period was the most difficult time for anyone to get a bank loan, forcing sellers to finance many of the transactions that occurred.

It is important to note that even during 2010, there were several transactions that attained the typical or standard value one may expect. A couple of examples:

- A sign and graphics shop with an annual revenue of \$2.15M and earnings of \$274K sold for \$850K, a multiple of 3.10.
- A sign and graphics shop with an annual revenue of \$2.24M and earnings of \$404K sold for \$1.3M, a multiple of 3.22.

Another statistic of note during the post recession period is that there were fewer sales of sign and graphics shops that performed below the industry standards, or were marginally profitable if at all. Poorly performing businesses have been much harder to sell in the post-recession period than during the prerecession period.

Please keep in mind that most buyers will not just focus on the most recent financial year, but will likely use an average of the last two to three years. Also keep in mind that these statistics are not meant to suggest an exact valuation formula, as there are variances from deal to deal and there are many factors involved in each deal. With that said, the statistics do provide guidelines that one should consider in their planning process.

As for overall business transaction activity, BizBuySell, the Internet's larg-

est business-for-sale marketplace, has reported that second quarter 2014 small-business transactions reached the highest levels reported since before the recession hit in mid-2008.

So, back to the initial question of market timing for selling a sign business — the answer is “good,” but the real question one should be asking is this: “Is your business ready to go to market?” While financial performance is the single most important element affecting the value of a sign business, there are many other factors to be considered as well:

- Recent trends in revenue and profits — are these increasing each year?
- Are the financial records “clean” and properly representative of the performance of the business? This is not only critically important to the buyer, but also for the bank that may be financing the transaction.
- Are all tax returns and other government filings up to date?
- Is your production equipment considered current technology or is it obsolete?
- Is your customer base diversified across a variety of industries?
- Is your customer base diversified across a number of customers? In the eyes of a buyer, a single customer that accounts for more than 15–20 percent is viewed as a risk.
- Is your business automated, using current technology to maximize efficiencies?
- Do you have historical records of customer transactions (a computerized customer database)?
- Are past customer graphic files stored electronically, and are they accessible?
- Do you have a website? Is e-commerce an active part of your business?
- Staff status — do you have tenured people in place? Do you have a competent second-in-command on staff?
- Have you delegated to the point to where the business does not rely on you for survival?

- Physical location — is your business in a desirable location? Is the facility relatively clean, neat and organized?
- Lease status — do you have additional years remaining on a lease, and is it transferrable to a buyer?

These are a few of the items you should consider when assessing your business — the more you are able to answer the above questions in the affirmative, the better your sign and graphics business should be positioned to sell, and more importantly, to maximize the sales price.

*Larry Lane is the owner of VR Business Brokers of McKinney, Texas, which is part of the worldwide franchisor organization that has been servicing small to medium size privately held companies since 1979. Larry spent 21 years as an executive with FASTSIGNS International including his last four years as President. During his tenure the company grew from 15 stores to 540 stores operating in six countries.*

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