



## February 2008

We would like to start this month's newsletter with an object lesson. Over the Christmas and Year End holidays one of our number, working closely with a buyer and a vendor helped them conclude a deal for the sale of a business. Naturally the offer was made subject to contract and due diligence. Our broker was able to enjoy a particularly satisfactory break in the knowledge that a deal had been agreed! As usual the owners of the business had shown figures indicating a level of profits which led to a given price being agreed between the parties. The basis of the figures, supplied by the vendors, was the last available audited accounts adjusted both as to owners' costs and as to projections for the current year. Unhappily when the current figures were produced by the accountants they differed dramatically from these figures with, of course, a knock-on effect on the potential value placed on the business by the buyer.

Fortunately in this case the buyer has experience of the worry that smaller accountancy practices have which, when faced with the possibility of a major external audit of their books, proceed with exaggerated care. That is certainly an element in this situation and may account for a part of the overall reduction in financial performance. The real concern however is that the business, though growing, is not generating the increased profits that it supposed it was because its costs have out-stripped the increase in sales. This is now the subject of intense analysis and verification. The best news coming out of this situation is that the buyer is still very keen and still prepared to close a deal in this fiscal year. Chesham is of course staying close to both parties to ensure that all options are considered. The main lesson to be drawn from this experience is that figures must be accurately estimated and reported. In this case the vendors are fortunate because they have established a good rapport with the buyer. In many cases the buyer would simply walk away.

Vendors often ask if they should "dress the company up for sale". Our sentiment is that if the business has been and is successful it is because of the manner in which it has been managed and run. Dressing something up for sale runs the not inconsiderable risk of upsetting that indefinable balance of entrepreneurship and business acumen that make a business successful. Buyers see through such stratagems and are wary of what might loosely be called financial engineering. It is best to continue to run the company as if it is going to be run for life.

Turning from a deal which is in progress, Chesham has been competing, as it does from time to time, in what is known colloquially as a beauty parade. A potential client liked our initial presentation and invited us for further discussions which culminated in a round table discussion with the members of Chesham. This, for us, is a major advantage in the Chesham offering; a vendor is handled by the same team throughout the business relationship. There are no juniors whose duty it is to churn executive summaries to the maximum audience and the whole, and we mean the whole, of the Chesham team is aware of the opportunity and of the substantive elements of discussions taking place.

We are able to offer this level of service owing to advanced IT and collaborative working. An article in an early December issue of the Financial Times highlighted the view of Chief Information Officers that "...companies will be most successful if IT is strongly aligned with the businesses it supports". We are most certainly of that opinion and we review our systems continually. We aim to provide our Brokers with advanced tools capable of collating and organising correspondence and documents including telephone conversations, meeting notes and other information in order to ensure that a satisfactory audit trail is established from start to finish of a project. Some deals simply happen virtually over night (a rare but exceedingly agreeable occurrence) many take months and some have taken years. It is for this reason that our systems are so important; the filing clerk has been replaced by electronic folders and search engines!

The gloomy present outlook appears to be reinforced by continual bad news from America or elsewhere (Société Générale for example). We are cautious about the future; as we have said many times in this newsletter; people must at some time consider the future of their enterprises and a sale is often the sole means to crystallise value. If it is considered that the present situation is a short-term phenomenon then it is likely that vendors will delay, however there is an element of momentum in economic affairs and the true effect of the current situation may not manifest itself until later on this year. As ever the crux of decision is aptly expressed by The Bard: «There is a tide in the affairs of men, Which, taken at the flood, leads on to fortune; Omitted, all the voyage of their life Is bound in shallows and in miseries.» Brutus (to whom these words were attributed) made the wrong decision because he misjudged the status of the tide; there are in fact no easy answers; this is a matter for personal judgement based on a sober view on current affairs and personal circumstances the whole accentuated however by sometimes irrational emotion.