



March 2008

Welcome March with wintery wind; would thou were not so unkind! So goes the old saw. March appears, on the contrary, to be an extremely interesting month for Chesham. A firm operating in the textile sector with whom we have been working signed Heads of Agreement on a sale, is now going through Due Diligence and is expecting to complete by the month's end. This is extremely good news because, naturally enough, the textile sector depends largely on the health of retail activity in the market. Press commentary suggests a looming crisis indeed not simply looming but a full-blown crisis. Whatever your view, it is our experience that farsighted buyers are looking to the future and preparing the terrain for the next cycle. We are assisting in several conversations on a number of fronts in the sector.

Our experience in the market is borne out by other commentators who believe that Private Equity buyers will still be extremely active in the market and should still be able to raise cash for both organic growth and acquisitions. That debt packages will be more conservatively structured is a certainty; that sources of funds will dry up completely is an absurdity. Larger transactions from £8m upwards appear to us to be reasonably solid. Smaller deals are however more vulnerable. For example a few months ago we mentioned an MBO team who found that the banks they had approached for a modest £3.5m deal had tightened up their criteria for debt financing and in effect killed the deal for the simple reason that a sufficient level of finance could not be raised. A similar situation developed recently with a European buyer (a significant firm in their country and in their sector) who found, at the eleventh hour, that finance for the UK acquisition they were planning could not be raised. This again was a small transaction of about £2m. In both cases the banks were looking at the target company finances and drew somewhat cautious conclusions about the level of debt the present and future cash flows could support. In these difficult times size is a factor and the smaller the figures the tighter the criteria and the greater the perceived risk.

According to some commentators, market professionals appear to be favouring asset based lending, an approach increasingly in vogue in the United States and gradually being adopted in the United Kingdom. This is in any event a logical move; tangible assets have always been a more acceptable basis on which to advance funds. In difficult times acquirers, particularly those seeking to leverage their acquisitions, will examine the amount of capital tied up in existing assets of the target company. Prior to the current credit crisis we were in conversations with the owners of a particularly attractive engineering business whose site of operations did not form part of the assets of the business. The only sensible way the potential acquirer could arrange the finance to meet the aspirations of the vendors was by asking the owners to sell the property in addition to the business! This unhappily raised emotional issues which were never resolved and the deal was not concluded. With hindsight of course that buyer was ahead of the market in his approach.

When Chesham encounters new buyers, particularly MBO teams or smaller overseas firms it takes care to ensure, insofar as possible, that the buyer has the means to raise the finance for the size of deals that are targeted. There is a very simple, direct and prosaic reason; Chesham works on a no deal no fee basis and thus cannot afford to allocate time and resources in open-ended situations where the finance or the possibility of finance is not secured. This is another powerful argument in favour of our stance; No Deal No Fee focuses attention in a way that up-front engagement fees and other stratagems cannot. You can be sure that Chesham will work its hardest to ensure a deal satisfactory to all parties is concluded.

Chesham is very pleased to welcome a new broker to its team; in common with all our brokers Nicholas Bray has a varied and interesting background. He is a Chartered Accountant who read Modern Languages at Oxford and has previously worked with KPMG and NM Rothschild. More recently he has run the corporate finance business of Enterprise Corporate Finance. Although he will be the youngest member of our team his extensive experience both as an adviser and as a principal in Private Equity will ensure that he very quickly establishes his credentials.