



January 2009

We enter the New Year under difficult circumstances but with a healthy book: the number of opportunities is reduced (it always is at this time of year) but the parties to discussions are working hard at trying to make the deals work. This is not for altruistic reasons, although they may play a part, it is for sound common sense reasons; companies develop, people move on to new or different horizons owing to changes in circumstances brought on by age, changing markets, competition or simply as a result of the natural evolution of the business. Successful businesses generally outgrow their founders; how many fourth generation family business still trade with members of the founding family still in control? Not many. As a result a sale must be envisaged and as nearly all entrepreneurs feel a sense of duty and care to their employees they must find a suitable home for their business. Chesham has been helping people sell their businesses since the early 1960s and has seen several recessions come and go. 2009-2010 may present unusual challenges but in essence the role of the broker will remain much as it has in the half century or so since Chesham started trading.

Brokers are a special breed of person; part self-motivated entrepreneur, part professional, part commercial and entirely a team player sensitive to the concerns and objectives of the parties to a transaction. We have said this many times in our newsletters but it is a message that merits repetition: by standing at the fulcrum of the deal, being neither the creature of one or the other party but nonetheless owing a duty of care to both. A pure Broker such as Chesham can perform services than none of the swath of advisors on the market can perform. Certainly one can sell businesses by a process of advertisement on web-sites and sometimes this may be the correct approach particularly if the business is small and local, but significant privately owned businesses which we define as those benefiting from revenues in excess of £5 million are less likely to find the correct buyer through such "dating" sites.

The risk we take, special circumstances aside, is that our fees are generally entirely contingent on success; this fuels our motivation to seek out only those opportunities where we believe there is a genuine deal to be negotiated. Our approach, our fee-scale and the contingent risk we carry are elements that merge into a proposition that should result in sensible companies for sale at sensible prices. This does not always work. For example in the run-up to an economic contraction prices invariably over-heat and rise to quite unattainable (on a long-term basis) levels. The window for such extraordinary transactions is narrow and can close at any moment without warning. So it was that an offer at the last Dot.Com bubble valued a small business at 100 times earnings while the buyer traded at a mere 20. Last year an over-eager buyer valued a business at 20 instead of a more rational 3 times earnings. Nonetheless both seemed entirely feasible. Firms that claim that value is based on the buyer's perception of the future are not of course entirely wrong but those windows of extraordinary value are so narrow and open for such a short period of time that counting on such serendipitous combination of circumstance is akin to playing the lottery once every economic cycle.

It is at times like this that a professional firm such as Chesham should be consulted.

Happy 2009!