



May 2009

During the past month there have been snippets of news which have been rather more encouraging than not. It does appear that perhaps we have either reached or are about to reach the point where inventories have reached the point at which renewed demand will herald renewed production. That is encouraging news but of course the recovery will be patchy. The Financial Times said in an article that appeared on the 1st of May that the defence sector is only now beginning to suffer the consequences of the global downturn. Indeed a number of firms mentioned in the article are predicting a shrinking order book for 2010. Conversations we have had with suppliers to the defence and aerospace sector are more sanguine. Some firms with operations in both Europe and the UK have found that while their European activities have slowed, manufacturing in the UK has been surprisingly resilient. Doubtless the weak pound is in part responsible.

Owners of private companies tell us they are being snowed under by letters offering to assist them in the sale of their businesses, sometimes with inducements such as an offer for a free valuation. When we write, we do so as a result of conversations our brokers have had with potential buyers or analyses they have carried out on a sector. For the very reason we do not represent a particular buyer we cannot know, in advance, what price might be put on a business. All we can do is approach the market professionally and aim to bring two parties together which, we believe, will have excellent reasons for considering a sale and purchase. Our terms are transparent; we are not interested in negotiating a “fee-trap”, nor an unreasonable lock-out. The very fact we are prepared to work on a purely contingent basis should encourage both buyers and vendors alike. No upfront fee means no reward for having failed to sell the business, no comfort zone in other words, for our expenses. We can only take on businesses whose owners are seriously considering a sale now at a realistic value. We cannot afford to punt; it would be commercial suicide. This is the best guarantee a buyer can have from Chesham. As far as a vendor is concerned he is not locked into any upfront fee payment nor is he talked into working with us on the basis of an unrealistic estimate of market price. Value is left to buyer and seller and so long as the aspirations are reasonable Chesham will dedicate its time to finding the right deal.

This month has seen a long-running saga which we first mentioned last October finally moving a step forward. An AIM-listed buyer has finally been able to raise the funds required for a transaction and is now expecting to move to Due Diligence and Completion. Another introduction has led to an offer being tabled with another offer in the pipeline. A number of new vendors for whom we have buyers ready and interested have asked us to assist them and as a result we have collectively covered a great deal of territory during April. It is business as usual but of course we move forward in the knowledge that the few positive indicators may turn sour. Two years ago – this is often the case in the months leading to a downturn – price appeared to be the last matter to be considered; one deal which commenced as a possible £9m transaction was talked up to nearly £14m and then collapsed. Today buyers are cautious and while eager to complete deals are constrained by the general financial climate. They will make acquisitions which fit their criteria, they will pay sensible sums but they will not be talked up beyond what they consider safe. Indeed one buyer with whom we have spoken recently has reversed his view, expressed only a few months ago, and is now ready to consider appropriate acquisitions. Foreign buyers are of course attracted by the weak pound: a European buyer will spend about 30% less Euros now than he would have done a year or so ago. Whether or not the pound recovers is almost irrelevant; they will have got into the market at the right time.

People or larger organisations will always need to sell their businesses at some time or another; fresh owners will always believe they have better ideas than the exiting owners. This cycle continues and will continue despite the economic climate. It is at times like this that a professional firm such as Chesham should be consulted because, we like to remind people, you only sell your business once!