



June 2009

Green Shoots? Last month we reported the view that inventories had reached the stage where it was likely that rising demand would lead to increased production; this was good news. However we start June with contrasting headlines; on the one hand we hear that Honda are recommencing production after a 4-month lay-off and on the other that GM are filing for Chapter 11 protection. In the middle ground we learn that sales in some sectors are growing or that profits are either up or not, at least, as poor as some had feared. Meanwhile other firms are still shedding staff. In a world where communication and commentary is virtually instant one cannot help but wonder how much panic and despair, each feeding on each other, have simply amplified the situation. In February of this year we labelled ourselves as realistic optimists. This is a position we still hold. Times are difficult but despondency is a self-fulfilling attitude of mind. The return to confidence that is appearing might well be short-lived; hope, like faith seeded on stony ground, will flourish and wither just as quickly. There is a school of thought suggesting that political actions lead to short-term fixes which in fact build up further problems further down the line. Whatever the truth, it is solid economic data that will ultimately underpin a recovery. The good news is that industrial production is either declining less fast or is even increasing slightly. Factory gate prices are beginning to firm; all this is encouraging.

On the ground the picture is also mixed; two businesses in quite separate areas of activity with whom we are talking are reporting stronger than ever order books yet shrinking bottom lines. In both cases there are clear, understandable and almost certainly containable, reasons for the transient depressed P&L. Unhappily buyers, for the most part, will view the figures with caution and will either refrain from making an offer or will revise their view severely, despite (as in one case) even a 40-year record of steady growth.

The key qualification is the phrase “almost certainly containable”. Even in good times a reverse blip is viewed with great caution. In the mid 90s a business (which we subsequently sold) experienced such a blip owing to a milestone having been missed by a significant, but by no means dominant, customer. The owner was on the point of agreeing a sale with the Chairman of what was then a relatively small quoted company. The deal did not happen; the quoted company moved on into other areas and is now a significant player in its chosen field. Meanwhile we sold the private firm at very near the aspirations of the owner year or so later. It has indeed since been re-sold for a considerable premium. Our view is that unless a sale is an imperative, the best option is to ride out the current situation while working with Chesham by showing us the quarterly management accounts in order that we can keep a watching brief on potential buyers. There is little point in precipitately revealing a company’s identity to a buyer in the hope of a quick gain. We are long term players.

In another situation we are now seeing two private buyers vying for a business whose performance in Q1 of this year has exceeded its performance in the last year. Both offers have merit and ultimately the decision may be based simply on personal rather than economic predilection. Indeed a case study in a CBI sponsored publication from the early 1990s highlighted the importance, still absolutely true today, of personal relationships in deal-doing. This is, we believe, where we excel; the broker that the parties meet is the broker that will work to close the deal; Chesham does not have juniors.

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!