



October 2009

One advantage of writing a Newsletter with several days, even weeks, delay is that one has the impression that one is ahead of the game insofar as breaking news is concerned; be that correct or not! Nonetheless the mood in the markets appears to be lightening with the Dow breaking through the 10,000 threshold for the first time since October last. Doubtless caution will be counselled as appropriate. One sometimes gets the impression that economic observers are like the killjoys in Health and Safety.

As a matter of fact Chesham has been extremely busy during the summer and early autumn on a number of fronts; we have one deal in its closing phases with completion expected at the end of the month, and several manufacturing and engineering business in detailed discussions. Our view, as it always has been, is that on the ground and despite the general economic climate at any one time, people still reach stages in their lives where change is an option to be seriously considered. For example a young entrepreneur who is a gifted business developer may have reached the point at which the fun of the job has evaporated and the daily grind of bureaucratic chores and administrative responsibilities submerge the pleasure of business development. Older people simply reach a time in life where other pleasures take precedence before, as they often say, true old age precludes the enjoyment of activities they have set their hearts upon! Thus, for better or for worse, deals mature. Owners, having decided to make the move, generally take a pragmatic view on value, weighing this up against the continued daily stress of responsibility and duty. Accountancy firms may still be valuing businesses at 5x EBIT or more; experience on the ground suggests that 3.5-4.5 is a more likely spread, depending on the quality and the resilience of the business.

At the level at which Chesham operates, the issues which are the darlings of the commentators in the M&A industry are generally absent. It is unlikely that a Chesham deal will change the face of an industry. It is interesting to note however that in one recent case Chesham were at the initial gestation of a move into the UK market by an overseas group. On the basis of the experience gained from a relatively modest series of four Chesham-initiated acquisitions, the buyer has now made substantial moves into the UK and has become a major player in the market.

Selling a business is often overlaid with considerable emotion. On one occasion many years ago one of our vendors woke up on completion day realising he could not go through with the deal. It is to guard against this and other "wobbles" that buyers will draft into the Heads of Terms a clause requiring, at the very least, reimbursement of their costs in the event of a vendors withdrawing from the deal. On another occasion a few years ago the vendor, who had remained as a consultant/director, within the company which had been bought from private ownership into a quoted organisation, expressed regret for the move. It was particularly galling for him since the company had gone from strength to strength under the new ownership. He couldn't help feeling that he had let a stranger move into his house. The broker who fielded the call was quick to point out that, on the contrary, this move, far from being a sort of violation of the vendor's home was closer to a successful marriage where the daughter of the house was assured a long and financially secure future. Curiously that comment seemed to help and very soon thereafter the exiting owner resigned his consultancy and went on to do the many other things "he had always intended to do". Chesham's services are not always straightforwardly financial!