



March 2010

We remarked some few months ago that the actions taken by the Government were likely to stoke inflation and it now seems, from the quarterly figures of the Office for National Statistics, that signs of inflationary pressure are beginning to show. Although the Black Economy is pretty small in the UK by comparison to some countries perhaps it has nonetheless contributed to continuing production (at least of services) and thus employment? It is possible of course that downturn estimates were wrong. However the welcome upwards revision of GDP growth (by a factor of 3) is countered by a revised upward measure of contraction in 2009. Thus the economy had further ground to cover which makes the 0.3% revised change even more welcome; particularly after a wintery February! Statistics are an essential tool for the better understanding of an economy's performance but figures are necessarily continually revised with the ebb and flow of data.

Our view is and has always been that these macro-economic measures and analyses have only a tangential impact on our natural constituency of potential vendors. Time marches on and whilst it is now expected that more people will continue working into the late 60s – by necessity or by choice – at some time a decision must be made as to the perennity of an owner-managed business. Fresh owners, as we have often remarked, will always believe they have better ideas and at the very least, usually bring a fresh approach to a business. This is the fundamental basis of the business cycle and deal flow on which we work. We believe this cycle will gather momentum despite external factors. The main concern is and always has been obtaining fair value. Today, buyers will tell us that vendors still have aspirations harking back to the boom years, whereas vendors will tell us that intermediaries have approached them with sometimes startling valuations.

There is little that Chesham can do to counter these desktop valuations; our view has always been that only when one, as a serious vendor faces a serious buyer will one know the true market value of a business. Unsurprisingly one's personal valuation usually exceeds that of the buyer. This view may be partly sustained by emotion, partly by other factors. Chesham's principal role is to draw in a number of buyers and to work with the buyer who, in the view of the vendor, offers the best all round deal. This will, naturally enough, involve the overall sum of money on the table, but other factors play an important role.

Our methodology is to discuss with buyers the sort of companies they would, in an ideal world, seek to open discussions with. Part of our buyer-centred research will involve an understanding of how a buyer might value a business. Our vendor-related research involves the subsequent identification of businesses that might correspond reasonably closely to these criteria, nothing being perfect in an imperfect world. In the UK barely 1% of all businesses fall within the parameters in which we seek to work: revenues in the range £5m-£50m making at least £500k. Our proprietary database holds nearly 50,000 records including individuals, UK and overseas organisations. Some of our records date back to the early 1980s when they were initially computerised. We find this an invaluable source of information and detail which enable us to have sensible conversations with potential vendors. Thus when we write a letter to a vendor it is a letter written with prior research and knowledge (where available) of the company and persons to whom we are writing. Whereas in the latter decades of the 1900s Chesham was one of a few practitioners, nowadays the market is flooded with people prospecting for opportunities. This leads, as we have mentioned in other newsletters, to vendor and buyer fatigue. As a result it becomes more difficult to open a discussion even under the best circumstances.

It is important therefore to choose your broker with care; the business cycle is now poised to gather momentum as the economy climbs out of recession and heralds the moment at which a sale ought to be envisaged. Talk to us, you could gain from our experience.