



## April 2010

The clocks have moved forward and so, despite the weather, summer has arrived. Depending on your viewpoint this might be an interesting analogy to the current economic climate. The recession is officially over and yet the press is still generally gloomy about the prospects looking forward. Commentators believe, with some justification that much hangs on the result of the approaching election and the impact the result will have on financial markets. On the ground however firms we are talking to are rather more hopeful than not; the sun, if not shining brightly is only behind a thin veil of clouds. Revenues and profits are increasing, existing and fresh market opportunities are being exploited. The future is believed to be rather more positive than not. However there are difficulties ahead, finance is not always easy to raise for example, banks are still being cautious. The common thread between these two views is the result of the election.

In addition we have noticed an interesting trend. Some buyers have relaxed their criteria as to size of the company and, more importantly, the size of their participation. Clearly any quoted company will seek to acquire 100% by preference but we have found that so long as 51% can be obtained buyers are prepared to entertain a longer view. In addition investment banks whose natural constituency was for far larger deals than the normal private transaction which form the bulk of Chesham's portfolio, are now looking at more modest deals. People working in Financial Services report they are extremely busy – yet completed deals are still thin on the ground. We will live, voter fatigue aside, through interesting times in April and May.

Many of the firms we are speaking to benefit from significant export markets be they direct or indirect. Naturally the present position of sterling has been helpful to these firms but more important has been the global reach that they command. Because of the importance attached to these export markets and despite the relatively difficult trading over the past two years we see that multiples are holding. Multiples vary, naturally enough, in accordance with sectors and the sizes of the businesses. As a general rule the higher the revenues, the firmer the multiples used to reach a valuation. Different buyer use different approaches; some use multiples of revenues, some of various incarnations of profits. At present in the engineering sector we are finding that multiples of EBIT can vary from 5 to 7. Service companies command multiples as low as 4 and perhaps as high as 7. Businesses that carry considerable property assets can command much higher multiples indeed some buyers speak of a simple multiple of revenues harking back to an approach not employed for some 20 years or more. Ultimately these are academic considerations; the nub of the matter is the price that someone is willing to pay. How the figure is arrived at is often an internal matter on which the rationale for an acquisition is based for the purposes of Board Room discussion.

Chesham's approach is to estimate a likely market price based on such multiples not as a valuation exercise but as a means to ensure that Chesham and the vendor have similar views on the order of magnitude of a possible transaction. This is an important consideration; only firms requiring an up-front commitment fee can afford to take on situations where the vendor's aspirations do not match the likely market price. Indeed such up-front payments, comfortable as they may be, could also be considered an insurance against failure.

When Chesham proposes an opportunity to a buyer it leaves the buyer to decide the price. This approach allows for great flexibility; a buyer may see in the opportunity many different angles beyond those analysed by Chesham and the vendor. This may enhance the price he is prepared to pay. Chesham does not offer an opportunity with a price tag; it merely offers the opportunity. Beauty is as always in the eye of the beholder.

An old Chesham adage was "Sell the sizzle, not the steak". Anyone can report figures, few can open the door to an imaginative opportunity and it is for this that Chesham excels.