



## May 2010

Writing a monthly newsletter just a few days before a General Election might appear foolhardy since one might believe that market will suffer a dramatic change as between the 6<sup>th</sup> and 7<sup>th</sup> of May and impose a complete redraft! Indeed it might were something catastrophic to happen. The reality is that the United Kingdom, despite the present situation has a relatively efficient tax-gathering regime and whilst its finances are not in good health few doubt that the situation will be successfully addressed over the period of the next Government. Thus the market for M&A work at our level will continue to produce deals; indeed one might think that if taxation becomes intolerable, perhaps more entrepreneurial people will sell off and move elsewhere to enjoy the fruits of the risks they ran and their labours over the past decades.

At a recent Breakfast Meeting attended by one of our number the sentiment, although rather depressed as to the general quality of the politicians coming forward in this election, was nonetheless rather more hopeful than not. With the present Government spending, according to one of the speakers, £1.30 for every £1.0 of revenue matters must be put right – this is a matter that will not allow for procrastination whoever comes to power. Thus there is hope that one way or another, matters will be addressed. The other concern was the relative size of the public sector; at present rather more than 50% of the working population is employed by Government. This is particularly galling for the remainder who work hard to create wealth. Naturally there are essential public sector roles to fulfil: the country must be governed, taxes must be collected, healthcare and other services extended to those less fortunate and so on. However it is the minutiae of controls – in all sorts of walks of life that cause entrepreneurs to feel – to a greater or lesser extent according to their experience – frustration. A Government that reduced the level of bureaucracy would, it was generally agreed, encourage employment and thus raise our economy. How nice, one delegate mused, if the regulations on employers with 50 employees or less were relaxed or even completely lifted!

In the first quarter of 2010 we have seen an impressive increase in the number of enquiries and most of us are busy with transactions ranging from quite modest values to more substantial deals. Buyers are nonetheless very cautious at present; this stance is perhaps the only one that will change to reflect the result next Thursday. As usual private equity houses are eager yet careful in their choices. For deals to be attractive to them there has to be a consistent progression in profits, a solid ongoing order-book and good second tier management must be in place. They will often back an incoming MBI candidate they know to replace the exiting owners. With such a profile, some will remark, why should private equity be involved at all? An MBO funded by the exiting owners, continues the argument, is surely a better solution giving the owners more influence over the hand-over and more satisfaction as they pass the baton to their loyal and trusted management? Otherwise, if money were the sole objective surely a trade buyer would offer the better deal?

This is a debate of considerable significance; generally speaking there is no easy sale and no straightforward answer. Broadly speaking, the financial parameters that determine the price that a buyer is prepared to offer are the same irrespective of whether the buyer is an investor or a trade buyer. The difference lies in the way the transaction is financed. Today finance is tough, banks are very cautious. Trade buyers with reserves and with a vision might, just might, be more attractive buyers however the people at the head of these organisations are nonetheless shrewd and careful businessmen with obligations towards their Board and their Shareholders that are as tough as any limits proposed by banks. Ultimately it is the future of the business that matters; private equity often provides an attractive stepping stone for smaller to medium sized enterprises.

Chesham has enormous anecdotal experience which it is happy to share with anyone thinking of a sale.