



June 2010

Uncertainty over capital gains tax is, we are told, likely to fuel a rush of disposals. It is worthwhile recalling that in November 2007 a similar situation resulted in a spate of marketing letters from advisors suggesting that an immediate disposal be considered prior to the then April 2008 deadline. Pronouncements from Government are a marvellous marketing tool!

Last month as we wrote our Newsletter the country was preparing to vote. This time, as we publish our June Newsletter, the country is waiting for the emergency budget; there is no doubt that we are living in interesting times. We can all be heartened by the Prime Minister's remarks concerning a low tax economy – the issue before us today is how to bridge the period between to-day's situation and the point, some time in the future, where the deficit has been brought under control. There are, at present, sufficient straws in the wind suggesting that too much eagerness for one fiscal direction or another might destroy the tangible yet extremely fragile recovery. In addition, the spice of the Euro-related problems sparked by the Greek debt crisis and reinforced by the concerns on the Spanish, Portuguese and Italian economies circumscribes the degree of freedom that politicians and regulators have at their disposal. The picture is, however, mixed and there are a growing number of industrialists who believe the worst is over. For example, the Chief Executive of Saint Gobain, the largest supplier of building materials in the world, was cited as saying in an interview with the Financial Times, that though the recovery in Europe is more fragile than elsewhere, "things are starting to get better". He went on to say that he felt the real economy was improving and that corporate profits would pleasantly surprise. Furthermore second-half growth in Europe was reported by the European Central Bank as being better than expected. Finally sentiment in the US suggests that the Euro-Crisis has not harmed the prospects for continuing recovery.

With these mixed signals it is not surprising therefore to read, according to research by Bureau van Dijk who collate information for their Zephyr M&A database, that Europe-wide deal activity in May 2010 was down by about 30% in comparison, both in volume and value with May 2009. However while the number of European deals has steadily declined from January 2008 to January 2010 the overall deal value has stabilised. As we have often remarked these indicators refer to deals well beyond the remit of firms such as Chesham. Nonetheless they act as signposts for the future. This is not therefore the moment to precipitate a sale unless there are pressing personal reasons. There is too much in the air; it is dangerous to attempt to second guess policy and in any event a change in policy or regulation inevitably has unexpected side effects or can present alternatives not yet imagined.

What Chesham has noticed over the first quarter of 2010 is that, increasingly, the equity and bank finance acquisition model espoused by many private buyers is becoming difficult to orchestrate; a grain of sand always appears in the gears and the deal folds. This has happened too frequently to be a matter of poor application; it is clear that under the present circumstances buying on credit is no longer as viable as it once was. Furthermore the collapse of such deals exposes the financial construct to jaundiced scrutiny by the vendor. Trade buyers will probably gain ascendancy over private buyers over the next few months; indeed one with whom we work underlines his "Trade Buyer" credentials. Private Equity meanwhile, with funds from £200m upwards, should be a favourable alternative to private individuals but even these buyers have, despite the availability of funds, proved very cautious and conservative in their approaches.

Vendors should not, in general, consider precipitate sales for purely fiscal reasons; Chesham's experience over nearly five decades suggests that the most successful sales happen "when the time is right" and any fiscal advantage is purely icing on the cake. Do talk to Chesham first; you only sell your business once.