Chesham Amalgamations

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We delayed publishing our Newsletter in the hope of positive news from Westminster. Instead the Prime Minister seems to be doing what she can to preserve the Conservative Party with scant concern for the repercussions on the rest of the country. Since the parliamentarians are incapable of reaching a reasonable compromise why not put the vote to the people? In 2016 the vote was as much a reaction to the over-arching austerity imposed by Osborne as it was with any real dissatisfaction with Europe. Now that the consequences are being uncovered (Airbus, the Motor industry in general, sheep farmers in Wales who face crippling tariffs) what is the harm in having a second vote? Perhaps the Conservatives zealots are worried about losing control?

Reading through a recent Bureau van Djik report on Western Europe we were struck by surprising buoyancy in the market. 2018 saw over 30,000 deals completed with an average value of 50m$. A not insignificant sum although in fact in 2015 the average deal value exceeded 50m$ and was then struck down in 2016 (the year of Brexit) by 20% falling to an average of 40m$. These figures bear little relation to the deals we handle but serve nonetheless as macro-indicators of the state of the market. Our end of the M&A market is rarely as affected by external factors as the headline-grabbing deals reported above. This is because in the £5m-£25m bracket macro-commercial indicators have only an incidental effect. This demonstrates quite nicely the difference between the market for large deals involving, for example, two quoted companies and our market where smaller quoted companies and specialist financiers purchase private companies. Apart from any other factor, prices in our market are less volatile.

A multiple of 5x Adjusted Pre-Tax is thus a fairly constant <u>first order indicator</u> of likely price.

Deal size however has altered enormously in the last three decades. In the 1990s a comfortably sized deal would have been one that lay between £1m and £2m. At that time the smaller public companies and most PE houses would be active and interested at that level. Any private buyers as were in the market had to negotiate with backers to raise such finance as the deal required from banks or other sources.

In the second decade of this millennium one cannot, exceptions aside, interest a PE house or indeed many of even the smaller public companies with deals whose transaction value falls below £10m. This makes it more difficult to close deals and shifts the focus from experienced buyers with a proven track record (surely an invaluable element for any vendor to consider) to newly arrived private buyers armed with a terminal payment from their previous employers in their back pocket and promoted by an advisory boutique who will attempt to raise the finance on their behalf. These people are usually successful managers with impeccable track records within someone else's organisation. Some will succeed as owner-managers, some will not; it is a risk that a vendor must consider particularly if there are future contingent payments to aim for and collect.

Financing a deal with third party money imposes constraints on the price that can be offered; in turn deflating the price. It is what has been happening for several years and adds another component to the debate for and against the timing of a sale that the vendor must consider. It is also a reason for looking overseas for, dare we say it, a European buyer. There is a school of thought, encouraged by the recent sale of Gatwick Airport, that European buyers should be encouraged even during this time of uncertainty because whatever happens with the Brexit situation, Europeans are our natural neighbours and are – no matter what the Conservative Party zealots suggest – our natural market. In these days of environmental concerns can it possibly continue to be considered viable to buy goods or have goods manufactured from half-way around the globe? Environmental awareness says no!

With 55 years experience Chesham has seen many ups-and-downs in the economic cycle but never a situation such as we now face. Time and Tide wait for no man; people will reach a time in life where a sale of their business must be contemplated. Whereas 50 years ago 60 seemed to be a sensible time in life to consider a sale, now 70 seems to be the threshold and how marvellous is that? So when the time to sell arrives it is sensible to speak to an experienced and knowledgeable broker; companies are ***not sold on a push-button basis*;** talk to Chesham because you only sell your business once!