



The Art of Completing Transactions in the Economic Climate – The Three Ps

In today's tough economic climate we are often asked are deals still being done, or are they being postponed in the hope of achieving greater success in the future? At Critchleys Corporate Finance, we continue to be busy; having had three completions since Christmas and an ever increasing transaction pipeline including some of the most exciting opportunities that we have ever acted on.

That said, transactions continue to be difficult in this current climate driven by a variety of factors:

Valuation: A common concern from business owners in recent months is determining whether their business is worth as much as it was a year ago and also if the value will improve when the economic recovery starts. This really depends on what sector the business is based in, as well as how it is positioned within that industry.

Certain sectors have been hit heavily by the stock market crash with listed company values plummeting over the past year, a fact that has not only depressed the multiples of many private companies but also eliminated many possible exit routes. There has been an even greater impact on those involved in sectors where maintainable profits are also expected to fall, for instance recruitment and construction.

However, it's not all doom and gloom. There will always be 'best in breed' companies in all sectors that can continue to achieve a premium above the market rate through having successfully formulated a secure strategy for these difficult times. Maintainable profits and positive cashflows are critical factors in this environment. If a company can demonstrate robust yet realistic forecasts its future becomes more attractive to a potential buyer or investor, and therefore more valuable.

Bank Funding: Theoretical values are all very well, but with the banking crisis still prevalent affordability and access to cash is also affecting the offers being made. The majority of corporate transactions require some degree of external finance, and the problems in the sector are well documented. To maximise potential a business must present itself in as attractive a light as possible.

Banks are often first port of call when seeking finance, and the credit crunch has tightened lending considerably. However, lending has not halted entirely – the banks still need to lend in order to make their money – but it is fair to say banks are being far more cautious when assessing investment decisions than they have in recent years. Businesses that are asset backed (with property, significant equipment or a strong debtor book) are most favoured due to the available security, but cashflow lends (lending on the anticipated cash generation of the business) are still possible, although at a lower level than previously seen due to the increased risk.

We are reliably told that the take up of funding under the Government's Enterprise Finance Guarantee (effectively a replacement for the Small Firms Loan Guarantee Scheme) is now beginning to snowball with the Government really pushing the banks to use it.

Venture Capital Funding: In addition to banks there remains the option of Venture Capital firms ("VC's"), Venture Capital Trusts ("VCT's") and Business Angels. As with the banks, venture capital professionals continue to be moderately active. In fact, due to the tightening of finance



from banks some VC's are even taking the bull by the horns by providing all of the finance necessary (both debt and equity) for a deal in order to sustain their deal flow.

VCT's operate in a similar fashion to VC's although in order to hold VCT status (and therefore remain eligible from investor tax benefits) they must invest 70% of their fund within 3 years of having raised it. This is good news for companies seeking investment because the VCT's must release their funds. Furthermore, VCT's must invest 70% of their fund in unquoted companies (albeit AiM companies are included within this).

What is clear is that between the VC's and VCT's there is a lot of money available but due to the banking issues new deals are a rarity, the bulk of the money is chasing buy and build strategies or shoring up existing investment portfolios.

Finally, business angels are still active and can provide a successful solution for companies seeking expansion or working capital finance. There may be fewer of them but those that still have cash can sense that now is a good time to invest particularly where there is a turnaround opportunity.

So what is required to complete a transaction in this climate?

So how do you ensure your company stands out? Getting ready for the 3 P's can help:

1. **Preparation.** Obvious yet often overlooked. Take time to consider the strengths of your business, competitive advantages and opportunities for growth. Also assess weaknesses, and act to mitigate them as much as possible. Get your company records and financial information in order to present an organised first impression and help to speed up subsequent information requests. Prepare monthly management accounts to track the performance of the business and to enable you to make timely decisions. Compile profit and cash forecasts for the next 12 months (or longer if possible) and consider what factors could cause these forecasts to change. Research who would be interested in acquiring or investing in your business and future strategy.
2. **Persistence / Perseverance.** Be ready to knock on doors and keep going until a decision has been made. Company directors and funders are likely to receive a high number of approaches in the coming months. To keep yours at the top of the pile it's necessary to maintain regular contact wherever possible.
3. **Perspiration!** It takes time and hard work to achieve the best outcome for the business, and you will have to balance this with managing the daily activities of the business to maintain forecast profitability. The use of specialist corporate advisors can help shelter you from much of the additional work and can not be recommended strongly enough.

Without the benefit of a crystal ball it is impossible to ever say for certain whether it is the right time to explore a corporate transaction. Factors such as business strategy and survival, commercial opportunities and management ambitions have as much impact on this decision as the economic climate does.

To summarise, deals are still being done and active investors and acquirers continue to seek, and pay fair values for the 'right' deals. However, there is little appetite to undertake corporate transactions for the sake of it, and it is therefore essential to follow the 3 P's to achieve success.

Critchleys Corporate Finance team is experienced in nurturing transactions from day one through to completion, and are happy to meet with you to offer a free 'health-check' and discuss corporate strategy.

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