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BUY, SELL OR INVEST IN 2015?

Buying or selling could get you where you want to be this year if you strike the right deal, writes **Stuart Wilkin**

Last year heralded a return to some kind of normality in the deals market. Confidence is higher than at any time since 2007, reflecting steady growth in GDP and continually low interest rates. But we aren't getting giddy. The banks are lending again, certainly in the mid-corporate arena and at sensible multiples, but they admit they are finding it difficult to get money out of the door, citing reticence on the part of business owners.

Chastened by recent economic turbulence, many businesses are sitting on cash. But now that we have emerged from recession and are seemingly heading for calmer waters, is 2015 the year for business owners to put that money to work? There are certainly companies in the region in limbo, still considering whether it's the right time to sell.

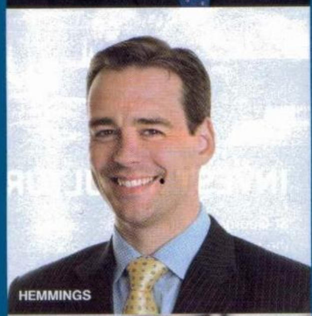
Confidence can be fragile. The latest ICAEW/Grant Thornton UK Business Confidence Monitor shows that it dipped for the second consecutive quarter towards the end of last year thanks to uncertainty in the EU, global instabilities and a looming general election.

But confidence still remains high by historic standards. *Insider*'s 2014 Dealmaker of the Year, Mark Naughton of Grant Thornton, says this augurs well for the New Year: "There is still plenty of positive noise," he says. "Confidence is better than it was 18 months ago and that will deliver a certain level of mergers and acquisitions (M&A). There is a lot of corporate money looking for a home and other lenders and investors aiming to put cash to good use.

"The banks have had a hard time and were maybe overly generous in the past, but for the right opportunities they are ready and willing to lend and there's a lot of pressure on them to do so," he says. "We are back to more sensible banking."

Naughton says the availability of money will allow businesses to buy high quality companies, and buyers are prepared to pay the right price for the right business.

HODGSON



HEMMINGS

NAUGHTON

ELECTION JITTERS?

The current Capital Gains Tax rate is kind to sellers, but that could change after the general election. Do the region's advisers think this will affect deals activity?

Andrew Hodgson, KPMG: "I don't see any change in deals behaviour around the election; sellers don't believe the Capital Gains Tax rules will change too quickly."

Laura Shaw, BDO: "The election will create a level of uncertainty but there isn't much evidence of businesses trying to crystallise the 10 per cent tax and do a deal. We'll be cautious if someone wants to sell in January just because it's election year. An election may be a consideration but it's certainly not a decision-making factor."

Adrian Hemmings, Simpkins Edwards: "The election shouldn't dictate deals. I can't imagine people pushing to get a sale or purchase made before May. Any uncertainty is already priced into the M&A market and there are only four months to the election. It's somewhat irrelevant now. The post-election budget will be in 2016 so do you really want to wait 18 months to make a decision?"

Mark Naughton, Grant Thornton: "There is uncertainty around the election and which way it's going to go, but this is a peripheral theme that may not be doing the overall market conditions justice."

"They are buying quality rather than taking advantage of a bargain, so prices for good businesses will hold up.

"Deciding whether to use your money to buy or invest internally depends on confidence. You need to know whether you have the ability to grow organically to get you where you want to be, or if there is a window of opportunity to acquire something and progress more quickly."

Andrew Hodgson, corporate finance partner at KPMG in Bristol, also believes deal values will be stronger this year: "At the moment, UK and overseas trade buyers and private equity investors are chasing the same transactions and this competitive tension means headline deal values are strong," he says, adding that "2014 was a good year for the M&A market building on the improvements in 2013 after a miserable period in the previous five years".

Hodgson believes we will have a corporate landscape with a great deal of leverage in 2015, but there is still some caution in the aftermath of recession: "In the UK we are lagging behind the levels of confidence in the US. There are funds on the balance sheet that should support M&A activity, but we're not quite there yet. You get sacked for doing a bad deal but you don't get sacked for not doing the deal."

But he insists conditions are favourable for a move: "We talk about EU headwinds and recession in Japan but there are as many positives here as negatives. GDP in the UK is strong, values are holding up in the South West, there is confidence in UK corporate and interest rates are low. How many positives do you want?"

BUY TO GROW

Laura Shaw, corporate finance partner at BDO in Bristol, agrees that people remain more risk aware than before 2008, but says historical figures are becoming less important. Buyers are comfortable using only a year's worth of trading figures, she says, and the assurance of sustainable profit going forward: "There's a misconception in the market that people want to see a lot of historical performance to achieve the right price. Three years of historical figures are no longer a prerequisite as buyers understand that it's been a challenging time.

"The opportunities to improve competitiveness and capacity are exciting, and acquisition is a great way of growing. It makes sense and I can see a buoyant M&A market this year. We were busy right up to the end of 2014 and nothing indicates a slowdown."

Shaw advises businesses on the acquisition trail to avoid limiting their options to companies for sale. Instead, she says they should focus on understanding what they are trying to achieve through acquisition and then looking for opportunities: "The right targets are often not advertised," she says. "But if the strategy fits then we'll start a dialogue. Everything is for sale if the price suits both sides.

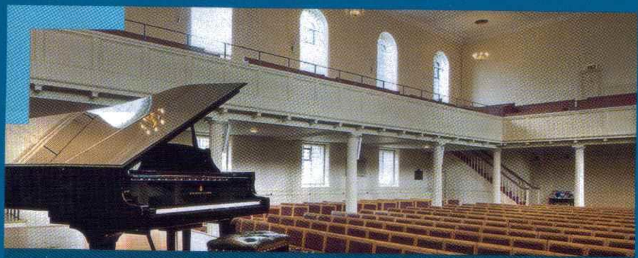
"The New Year always prompts some movement as people look at the world in a different light in January. So is it a time to buy? There may be slight hesitancy around the election but if it's the right time to sell, it's the right time to sell."

SELL AT VALUE

So, as ever, the challenge lies in marrying the matched parties to enable the buyer to expand and the seller to capitalise on a lifetime investment. And with a growing line of suitors for the best buys, this could be a good year for sellers – particularly those who have procrastinated.

But temptation to take another year's profit could cloud the decision. Adrian Hemmings, a partner at Simpkins Edwards in Exeter, says: "It all depends on what you think you will achieve in the intervening period and where you are in your life. If you do as well this year as you did last year – then you'll get the same price for an extra year of work. If you can all but guarantee growth, then there may be a case to stay on. Do you need to exit?"

Hemmings believes fewer deals will stall on price in 2015: "There is more realism now. Buyers have more confidence and sellers have had a reality check so there is willingness to compromise. Competition means the buyer will pay the right price, and vendors have re-aligned their expectations; so the gap is much smaller and that means deals will be done."



INVEST IN CULTURE

St George's Bristol has just reached the halfway point in its Building a Sound Future fundraising appeal to raise money for an extension.

For some businesses, investing in community initiatives such as this can build brand loyalty, which can have a useful knock-on effect on sales.

St George's Bristol has been prolific in presenting classical, jazz and blues music. Simon Farley, head of fundraising and development, says: "The auditorium works well but it's fairly inadequate for 21st-century audiences. The anticipated cost is £5.5m and we have already raised half of this. The project will enable us to get together a more fit for purpose concert hall."

The venue attracts internationally renowned pianists and Farley believes it presents a unique opportunity for businesses: "The venue hasn't previously been touched so this is a transformational change that will have implications and resonance in Bristol and internationally."

There will be naming rights available for the whole of the new build or parts, including the artists' area and a new bar. Farley says: "It's an attractive destination for Bristol and will present an opportunity for a long-term association. We'll talk to businesses that express an interest and craft an involvement around their own growth strategy."