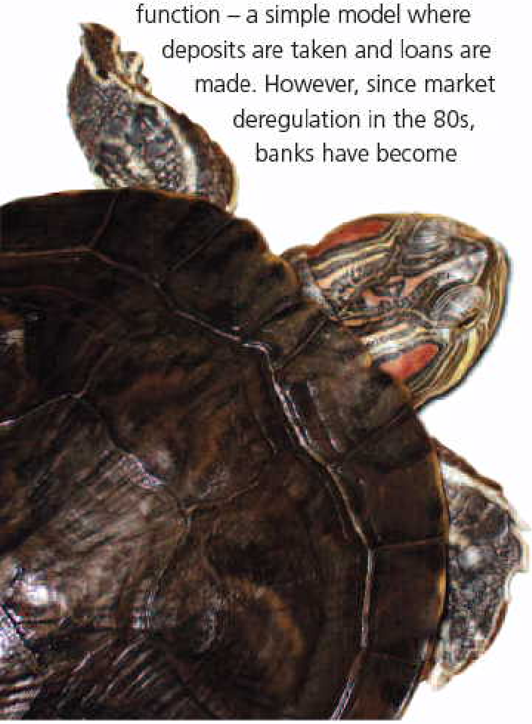
Tortoises are the new hares

There can be no doubt that we are currently living in very testing times. The scale of the well documented financial crisis – particularly since the collapse of Lehman Brothers in mid-September – has been the most dramatic in a generation and has led to widespread apprehension and uncertainty.

Most ordinary businesses and people look to banks to serve a proper economic function – a simple model where deposits are taken and loans are made. However, since market deregulation in the 80s, banks have become increasingly involved in developing and trading ever more intricate financial derivative products. The system has been like an old-fashioned bank building attached to a casino – the problem being that the gamblers in the casino have been using the funds generated by the bank! It was inevitable this would end in tears.



Impact on the real economy

The unprecedented nature of the problems in the financial sector has undoubtedly had an impact on the real economy. There have been numerous casualties, particularly in property, retail and businesses which were structured with aggressive and inappropriate levels of debt.

The irony of this is that the sort of businesses that were considered unfashionable – solid, well managed businesses in unspectacular but profitable sectors – are now flavour of the month again. Strong and careful cash management has always been the key priority for these businesses and the downturn we are now experiencing makes this ever more important.

Is funding available?

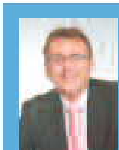
This is the question I am asked most frequently. The simple answer is… yes, for properly structured deals.

The financial sector crisis has been a major shock to the system. An inevitable consequence of this is that banks are more cautious – debt multiples are lower and debt is more expensive than it has been recently, albeit still relatively cheap compared with historic levels.

I regard the banks' more cautious and circumspect approach as an understandable (and necessary) market correction. The high profile, racy, ultra-high leverage 'mega' deals are a thing of the past, although such deals have never been a feature of dealmaking in this region.

In many ways it is business as usual. Funding remains available but only for proposals which are strategically sound, thoroughly researched, properly structured and professionally presented. Whilst the timeframes for deals to complete has lengthened, they are still being done. Indeed the turbulence experienced in recent months provides opportunities for the 'nimble footed' and in the last few weeks alone we have completed three acquisitions of sound businesses which were 'innocent victims' of highly-leveraged funding structures.

I predict more of the same for 2009 for proposals which meet the criteria referred to earlier, particularly as funding markets continue to free up. As some commentators have said… tortoises are the new hares!



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