

# BETWEEN A ROCK AND HARD PLACE

A growing number of PLCs in the cross hairs of both PEs and Activists



AlixPartners has identified 40 listed companies (FTSE 100 and FTSE 250) with market values far lower than their underlying asset value. This looks set to trigger a potential stand-off between private equity, awash with cash to invest, and activists looking to address issues of poor performance and seeking to maximise their investment.

Difficult market conditions, underpinned by the political and economic uncertainty of Brexit and concerns about global trade conditions, are depressing equity markets. This is devaluing listed businesses even if their revenue comes from overseas, driving an increase in the move to private ownership. Last year 28 companies went into private ownership and only 34 applied to list (the lowest number since 2009). Only £3.7 billion was raised in listings; half the value realised in 2018.

Add to this weak Sterling and private equity firms sitting on \$1.5 trillion of capital (and looking to raise more), accommodating debt markets and plentiful supplies of cheap, covenant-light credit, these businesses are facing something of a 'perfect storm' of vulnerability.

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## TRANSFORMATION CHALLENGES

AlixPartners has observed that most of these companies have also been subject to accelerating headwinds and disruptive influences in one or more of their business units. In every case, the scale of transformation required to address these has seemed overwhelming, leading to [repeated] profit warnings and share price reductions. This has damaged investor confidence in both the business and its ability to change.

Shackled by the risk aversion of institutional owners, management in these businesses consistently struggle to address issues such as core vs non-core activities, preferring instead to look for cost synergies through mergers. With strategic buyers' decision-making inhibited by political and economic uncertainty and complex antitrust regulation potentially upending larger deals, the stage is set for funds to capitalise.

## UNLOCKING POTENTIAL

Private ownership naturally allows for a longer term, and more drastic, transformation. Free from the need to justify to/appease diverse shareholder groups, private equity firms can focus on selling non-core businesses to other investors or more strategic buyers. They can also remove or significantly reduce the substantial corporate overheads often associated listed businesses.

This population of the FTSE, and their attraction to private equity, is likely to grow as their appeal to PE funds remains – in the short to medium term at least. The pace of growth will also be driven by funds joining forces with one another, often supported by pension and sovereign wealth funds, to execute bigger and more complex deals.

AlixPartners therefore anticipates the number of public-to-private deals will increase. This in turn is likely to be countered with challenges from activists, forcing a shareholder value optimisation contest.

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### ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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