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Private equity bids surge as buyout firms exploit weaker valuations amid tough UK market

Private equity firms have been swooping in with offers to buy struggling UK companies over the past two years as they take advantage of weaker valuations.

A challenging UK market and an uncertain economic outlook, driven by Brexit fears, have dragged on the share prices of many London-listed businesses, making them attractive takeover targets.

The availability of cheap debt to finance deals has also contributed to a surge of private equity bids.

Last year, private equity firms invested £28.6bn in UK acquisitions, according to data analysis business Unquote, and just three months into 2019 the market has already seen a slew of deals.

Private equity bids in 2019

The latest deal announcements came on Monday from British satellite operator Inmarsat PLC (LON:ISAT) and financial services firm IFG Group PLC (LON:IFG).

Inmarsat has agreed to be taken over by a consortium led by private equity firms Apax Partners and Warburg Pincus for US\$3.4bn, nine months after rejecting an offer from US rival EchoStar.

READ: Inmarsat shares rocket higher after agreeing US\$3.4bn takeover by private equity-led consortium

The consortium has exploited the fact that Inmarsat shares had deteriorated over the past five years following a period of poor performance and amid concerns that it faces increasing competition from rivals like Elon Musk's SpaceX and the Richard Branson-backed OneWeb.

Similarly, IFG shares had lost value over the past year before the company announced it would be bought by UK private equity firm Epiris for £206mIn.

Another private equity bid this year came in the form of a rescue deal for café chain Patisserie Holdings, the parent company of café chain Patisserie Valerie.

READ: IFG agrees to be taken out by UK private equity firm Epiris in £206mIn deal

Last month, Patisserie Holdings was saved from closure by a management buyout backed by Irish-based private equity firm Causeway Capital Partners. The company, which collapsed into administration in January, was sold for £13mIn, a fraction of the £450mIn the group was once worth.

Other private equity bids this year have included Apollo Global Management's collapsed deal to buy plastic packaging firm RPC Group PLC (LON:RPC) and the cut-price takeover of airline Flybe by Connect Airways, a consortium made up of US private equity firm Cyrus Capital Partners, Virgin Atlantic and Stobart Group.

Price: 544.8p

Market Cap: £2525.59M

1 Year Share Price Graph



Share Information

Code: ISAT

Listing: LSE

52 week High Low
646.00p 350.20p

Sector: Telecoms

Website: www.inmarsat.com

Company Synopsis:

Inmarsat Plc provides via satellite a portfolio of global mobile and transportable broadband communication services and solutions across its main areas of maritime, aeronautical and land mobile.

Author:

Proactive Investors Ltd

+44 (0)207 989 0813

action@proactiveinvestors.com

Takeover approaches in 2018

Last year was also a busy year for the industry, with some of the takeover deals including: the acquisition of biopharmaceutical technology group Abzena by Astro Bidco Ltd, a fund set up by a US private equity house Welsh, Carson, Anderson & Stowe; the takeover of electronic components maker Laird by US buyout group Advent International; and Bain Capital's purchase of insurer eSure.

Unsuccessful bids included: Apollo's attempt to buy British train and bus operator FirstGroup PLC (LON:FGP); offers by private equity firms KKR and L Catterton to take over Asian restaurant chain Wagamama; and CVC's approach to acquire Kantar, the market research arm of WPP PLC (LON:WPP).

KKR said to be circling Asda

More recently, there has been speculation that private equity firms could soon start circling Walmart Inc's (NYSE:WMT) Asda after the UK Competition and Markets Authority raised "extensive competition concerns" with the supermarket chain's proposed £7.3bn merger with rival J Sainsbury PLC (LON:SBRY).

READ: Sainsbury's and Asda suggest selling up to 150 supermarkets to get CMA approval

According to media reports, KKR is understood to be among the private equity firms said to be exploring a bid for Asda.

Sainsbury's and Asda have agreed to sell up to 150 supermarkets and several convenience stores while promising to cut prices to convince the CMA to approve the deal.

The CMA has until April 30 to publish its final report on the deal.

Further offers on the horizon?

With some struggling sectors presenting opportunities for private equity firms, there could be more bids on the horizon. Retail, restaurant, construction and outsourcing are among some of the sectors that have suffered recently.

However, investing in UK stocks is risky given that the government is no closer to agreeing a deal for Britain's departure from the European Union, increasing the likelihood of a disorderly Brexit.

The Bank of England has warned that a no-deal Brexit could cause more damage to the UK economy than the 2008 global financial crisis while a government report has said this scenario could spell big trouble for companies with EU ties.

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Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

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