

# Note to clients

## UK private equity mid-market update



16 APRIL 2020

Over the last three weeks, private equity (PE) houses have been through detailed crisis management planning exercises with their portfolio companies and have a clear plan of action on a worst, base and best-case scenario basis. Whilst bolt-on acquisition opportunities will undoubtedly form part of the best-case scenario for some portfolio companies, accurate forecasting remains a challenge and it is difficult to value target businesses in volatile markets.

Whilst management teams focus on the execution of these plans, attention at the PE houses is now switching to where future investment opportunities will come from. All PE houses would love to see a short, sharp V-shaped recession with the result being a one-off downward correction in valuations in the leveraged buy-out market. Unfortunately, that utopian scenario is unlikely to arise in a market that remains oversupplied in terms of both equity and debt funding and PE houses may need to be more inventive.

Our top three areas where we expect opportunities to arise are:

### 1. Public companies

It would be naive to think that shareholders in public companies will seek to crystallise loss-making positions in the current market. As such, we believe public-to-private (P2P) opportunities will be limited to those businesses that should not have been listed pre-crisis.

Listed businesses will look to repair balance sheets so, although significant dry powder exists for rights issues, private investment in public equity (PIPE) investment opportunities will exist particularly where a more complex investment case exists.

The cash headroom provided by the equity injection will give the PLC time to consider its long-term strategy and the potential sale of non-core divisions. Although we do not expect a flurry of activity in 2020, there are some obvious targets for 2021/2022.

We are working closely with our Equity Capital Markets (ECM) team\* to assess the most attractive investment opportunities.



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Now is the time to start thinking about where the impact of the Covid-19 crisis is going to create new investment opportunities in the market.

STEVE CURRIE,  
PARTNER, ALANTRA UK

\*The capital markets activity of Alantra is carried out in the UK through N+1 Singer, where Alantra holds a stake of 27%.

## 2. Buying debt

The concept of buying debt to take a position in the capital structure has negative 'loan-to-own' connotations due to the unscrupulous behaviour of some hedge funds in the past.

However, as long as companies understand the investment philosophy of the private equity house and its fund objectives, the presence of a supportive investor in the capital structure should be regarded by the management team as positive.

Whether lenders look to sell individual positions or a portfolio of loans at a discount to market value, this will create an interesting value creation opportunity for PE houses.

Our Debt Advisory team is in constant dialogue with our specialist Corporate Portfolio Advisory (CPA) team, who have a market-leading position on a pan-European basis in acting on the buy-side and sell-side of loan portfolios.

## 3. Minority investments

As mentioned above, we should not expect shareholder value expectations to move overnight. However, on the back of Brexit uncertainty in 2019 and now the Covid-19 crisis in 2020, no one would blame an entrepreneur for wanting to de-risk his or her own personal balance sheet by taking some cash off the table at this point in the cycle whilst at the same time repairing an over-leveraged balance sheet and/or injecting some development capital into the business to take advantage of growth opportunities, whether organic or by acquisition.

Minority investments are a good way of bridging conflicting views on valuation as the valuation of 100% of the business should not be the prime consideration in negotiations. The focus should be on what the business will be worth in five to ten years' time based on the growth capital being invested. The debate is then between downside risk protection and upside return in structuring the private equity investment into the business.

We have a strong track record of advising on minority investment or partnership capital deals, which is a very different M&A skill set to simply selling 100% of a business.

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Alantra has specialist knowledge in equity capital markets, debt advisory and private equity to identify new investment opportunities in the current market.

STEVE CURRIE,  
PARTNER, ALANTRA UK

## Our recent partnership capital transaction experience

<p>MAR 2020 </p> <p> BOWMARK CAPITAL</p> <p>Buy-side advisory</p> <p> focus</p>	<p>JAN 2020 </p> <p> SYNOVA CAPITAL</p> <p>Buy-side advisory</p> <p> Charnwood University Endowment in Chemistry</p>	<p>JAN 2020 </p> <p> TENZING GROUP #1135</p> <p>Investment</p> <p> activpayroll</p>	<p>JAN 2020 </p> <p> REDINGTON</p> <p>Investment</p> <p> Phoenix Equity Partners</p>	<p>FEB 2019 </p> <p> altius</p> <p>Investment</p> <p> MML RETURN ON IDEAS</p>
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