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ALERT MEMORANDUM

UK Bids: Why the 'Reopening Trade' May Result in a Flurry of Activity Particularly for Domestically Focused FTSE 250 Companies

13 May 2021

In the past week, two further potential bids were announced in relation to FTSE 250[1] companies – KKR's potential bid for John Laing and Blackstone's potential bid for St Modwen.

This follows a number of recent bids for UK listed companies, many of which were launched following the announcement[2] in November 2020 by Pfizer and BioNTech which triggered the so-called 'vaccine rally'. The recent bids for UK listed companies have included:

— Allied Universal's bid for G4S, a FTSE 250 company. Allied Universal is a portfolio company of Warburg Pincus;

— Blackstone, GIP and Cascade's consortium bid for Signature Aviation, also a FTSE 250 company; and

— TDR Capital and I Squared Capital's consortium bid for Aggreko, also a FTSE 250 company.

The UK market is expecting more bid activity over the next 12-24 months, particularly in relation to FTSE 250 companies. This is for a number of reasons:

— On various valuation metrics, the UK's stock markets are materially cheaper than US stock markets and stock markets in other international jurisdictions;

If you have any questions concerning this memorandum, please reach out to your regular firm contact or the following author.

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[1] The FTSE 250 comprises the 101st to the 350th largest companies listed on the London Stock Exchange Many of the FTSE 250 companies are more exposed to the domestic UK economy than the FTSE 100 companies, which tend to derive more of their revenue internationally.

[2] That their vaccine candidate was 90% effective in preventing COVID-19.

— Although the pound sterling has strengthened somewhat over the past 6 months or so, on a longer term basis the pound has fallen materially against the US dollar and other currencies;

— Some of the uncertainty around BREXIT which had adversely affected the UK markets and the UK economy has diminished following the agreement reached between the UK and EU in December 2020;

— Having been hit hard during 2020 and early 2021 from the pandemic, rapid implementation of vaccination programs has helped in the short term to significantly alleviate the adverse effects of the pandemic in the UK;

— The UK's stock markets are made up of a high proportion of financial, mining, energy and other so-called 'value' and 'cyclical' businesses. These economically sensitive companies have been out of favour for a number of years. However, as the Chief Economist of the Bank of England has said, the UK economy is now expected to recover "at a rate of knots" from the second quarter of 2021, and investors are increasingly looking to deploy capital into value and cyclical businesses. One leading hedge fund manager recently remarked that the FTSE 250 is "about the purest reopening trade in the world."

— High levels of shareholder activism in the UK. On some metrics, the UK's stock markets have had the highest levels of shareholder activism in the world in recent years. Shareholder activists will increasingly find opportunities to initiate M&A in the UK market particularly in relation to companies whose business plans have disproportionately suffered during the pandemic.

— PE firms, many of whom have a significant presence in London, have record amounts of dry powder and have been particularly active in UK take-privates over recent months.

These factors may result in a flurry of bid activity in the UK over the next coming years. In particular, the market is expecting a significant amount of interest in FTSE 250 companies, which are cheap and particularly leveraged to the reopening trade, from PE funds and offshore bidders.

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