IDEAS | PEOPLE | TRUST

Public to private transaction insights

BDO Deal Advisory

Contents

The rise of public to private transactions

The interest of private equity investors in public companies has been on the rise over recent years. Of course, the public to private ('PTP') is nothing new and has been around for many years with waves of activity levels. The financial crisis of 2008-09 reduced private equity investing in both private and public companies. The takeover of Cadbury by Kraft Foods in 2010 caused the Takeover Panel to revamp its rules with the removal of inducement fees and the introduction of further put up or shut up measures. For a while that made private equity more wary of public company deals until new norms were understood and interest picked up again.

Throughout those years however most takeovers were still led by strategic buyers. 2019 was different in that nearly half of takeovers were PTP deals. That trend looked set to continue into 2020 until COVID-19 had a dampening impact on takeovers and M&A in general.

COVID-19 caused capital market valuations to be hit hard with a 20% fall in March 2020 making many public companies look more attractive in value terms.

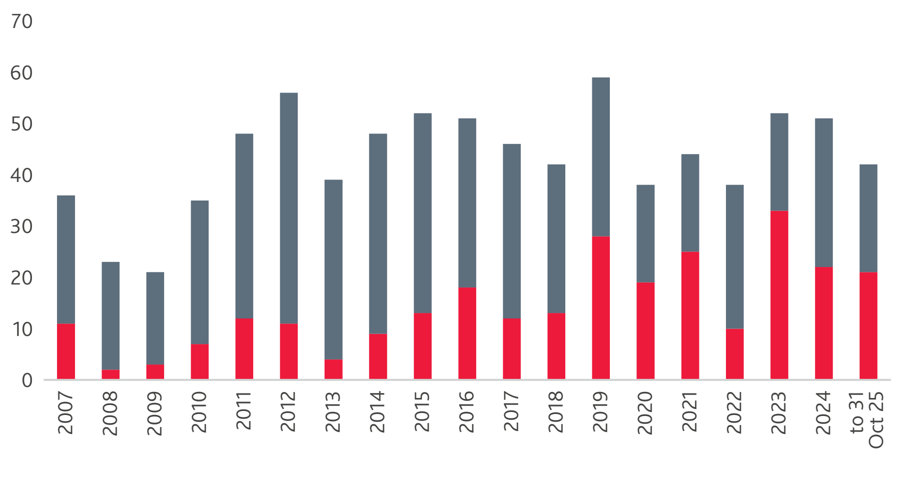
That lost ground was quickly recovered over the remainder of 2020 with growth in 2021 before a decline in 2022.

In 2023 and 2024, AIM and main market companies saw around 50 firm offers each year, marking an increase compared to previous years. 2025 looks set to match this figure.

The number of PTPs announced in 2023 was more than three times that of 2022. However, 2024 experienced about 50% fewer PTP transactions compared to 2023. So far this year, the number of PTP transactions announced is similar to the total of 2024, making up half of all firm offers.

We expect continued private equity interest as many companies face challenges with low capital market values and liquidity. Public companies with their ease of research should continue to figure prominently in private equity sights.

UK takeover offers



Source: BDO analysis

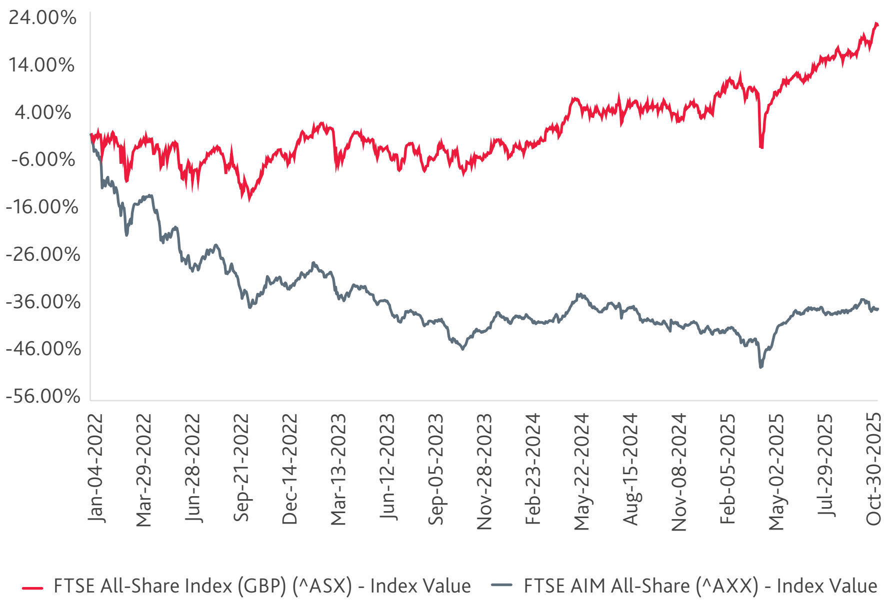
Private equity interested in both main market and AIM companies

Comparing main market listed companies with AIM companies, the share price movement chart opposite shows that AIM prices have been in decline since 2022, tracking well below the FTSE All Share Index.

It is noticeable that private equity interest in AIM companies has been growing. We would attribute this in part to the growing size and quality of companies on AIM which are of greater interest to private equity. 2023 saw double the amount of AIM PTP transactions compared to the main market. This is likely due to the relative lower value of AIM companies. 2024 also saw more AIM PTP transactions compared to the main market. 2025 to date has seen a similar amount of both main market and AIM PTP transactions. Following the changes to inheritance tax ('IHT') for AIM companies, we expect interest in AIM companies to continue. Many retail investors have been attracted to AIM for the IHT benefits it offered but as this benefit is to be reduced there could be investors looking to sell.

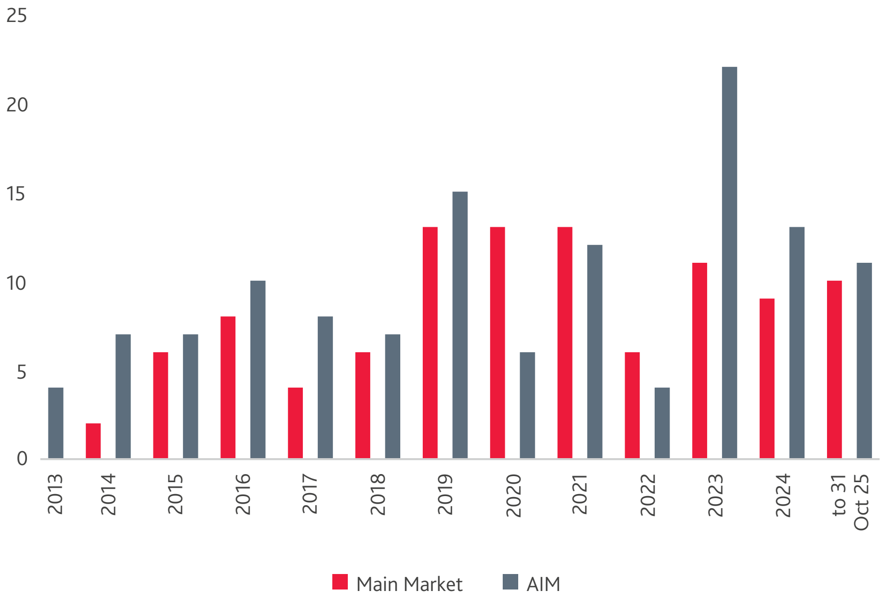
AIM prices have significantly fallen behind the All Share over the last four years.

Share price movement

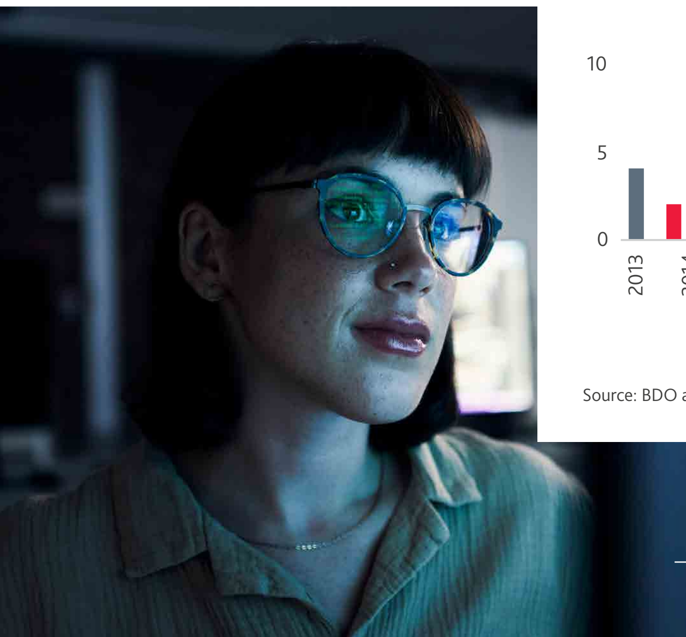


Source: Capital IQ

Public to privates



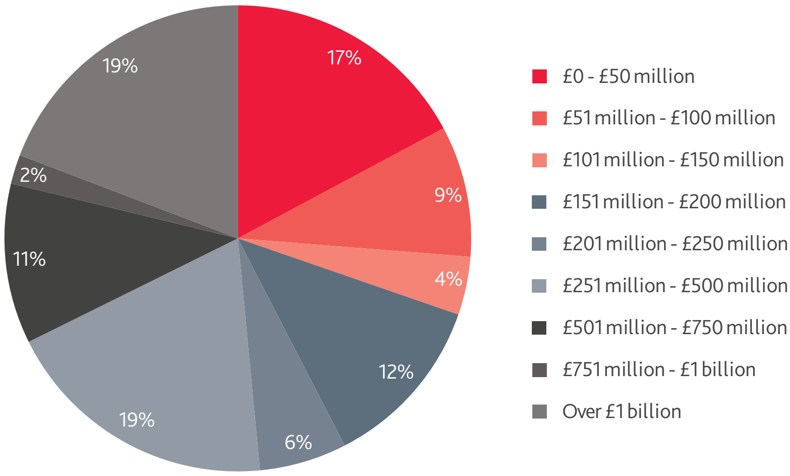
Source: BDO analysis



There is a spread across size and sector but with a leaning towards more asset light businesses

Looking at the size of PTP transactions over the last three years, there has been a spread. Around a quarter of the deals have been sub £100 million of value. Close to another quarter of the deals have been between £100 million and £250 million. At the top end, some nearly 20% have been over £1 billion in deal value.

Public to privates 2023 – 31 October 2025 – value



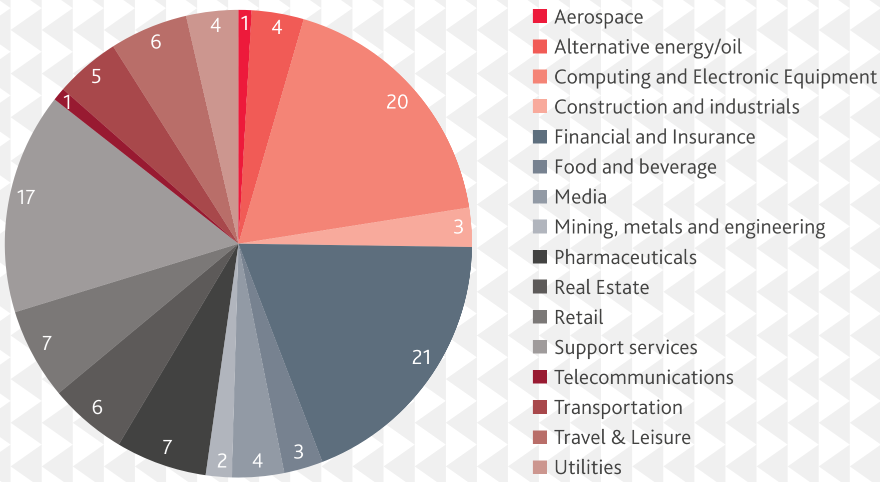
Source: BDO analysis

Looking at sectors there has been a broad range of public to private deals, reflecting the diverse investment focus of many private equity investors.

Over the past five years the sectors that attracted the most interest were financial and insurance, computing and electronic equipment and support services with an increased number of transactions in the transportation sector in 2024.

There has been a leaning towards sectors and businesses that have a strong services element to their business model and more of an asset light balance sheet.

Public to privates 2021 – 31 October 2025 by Sector



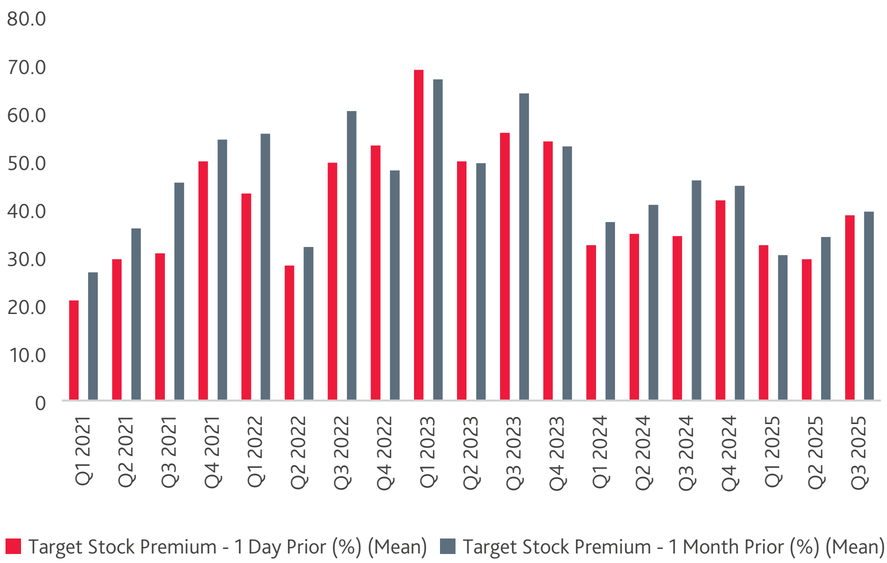
Source: BDO analysis

Bid premiums are lower than the highs seen in 2022 and 2023

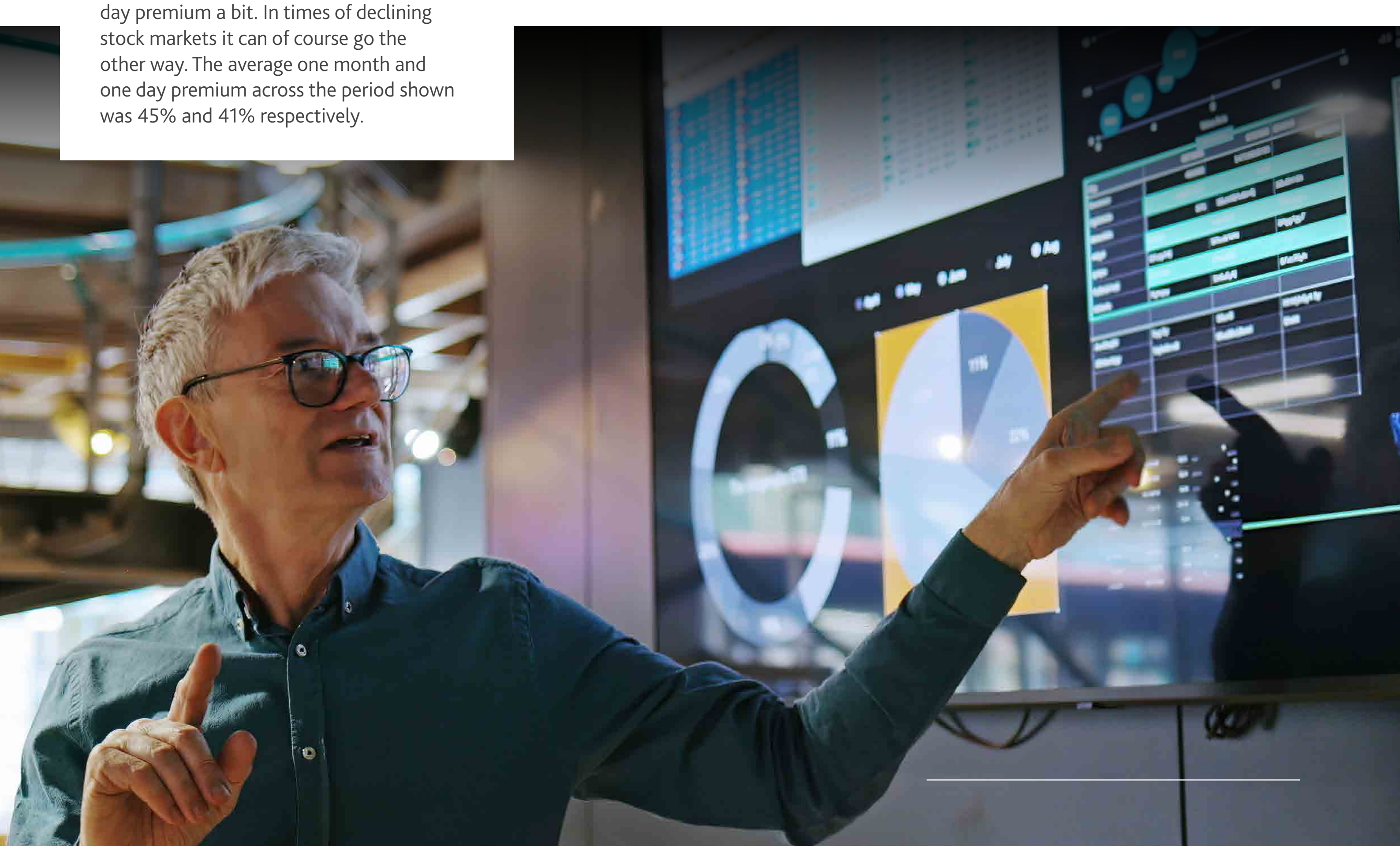
Takeovers of public companies have traditionally been priced as a premium to the prevailing share price. The conventional wisdom being a standard premium of 30% which has varied as underlying earnings based multiples have moved up and down with market price movements. It was once considered that a management buyout of a public company should command a higher premium but we believe it is now more to do with the traditional dynamics of M&A, based on the interested parties and underlying multiples at the time.

Looking at the quarterly premiums for takeover offers (including PTP deals) over the last few years, they have varied widely between around 30% and 70%. The diagram includes both the premiums for one month and one day before the announcement of an offer. The one month is often thought to be a better guide to the premium as the share price sometimes edges up the closer to a deal which compresses the one day premium a bit. In times of declining stock markets it can of course go the other way. The average one month and one day premium across the period shown was 45% and 41% respectively.

Takeover offer bid premiums



Note: Premiums over 100% have been excluded from the averages
Source: Capital IQ and BDO



Buy side factors

So why have we seen an increasing interest by private equity in acquiring public companies? As the number of private equity players has grown along with the amount of available capital to deploy, the supply of funds has been looking for good companies of the right size to invest in. Debt is generally still available, albeit the cost of debt has increased and some sectors may have lower appeal for lenders.

The added transparency of public companies in terms of reporting, disclosure and investment research makes them easier for deal origination teams to do their analysis than with more opaque private companies. Moreover, for the right price most institutional shareholders are often willing to entertain an offer.

We also believe that as private equity has developed, many investors have become willing to look at more complicated deals that could put rival buyers off.

Record levels of cash to invest

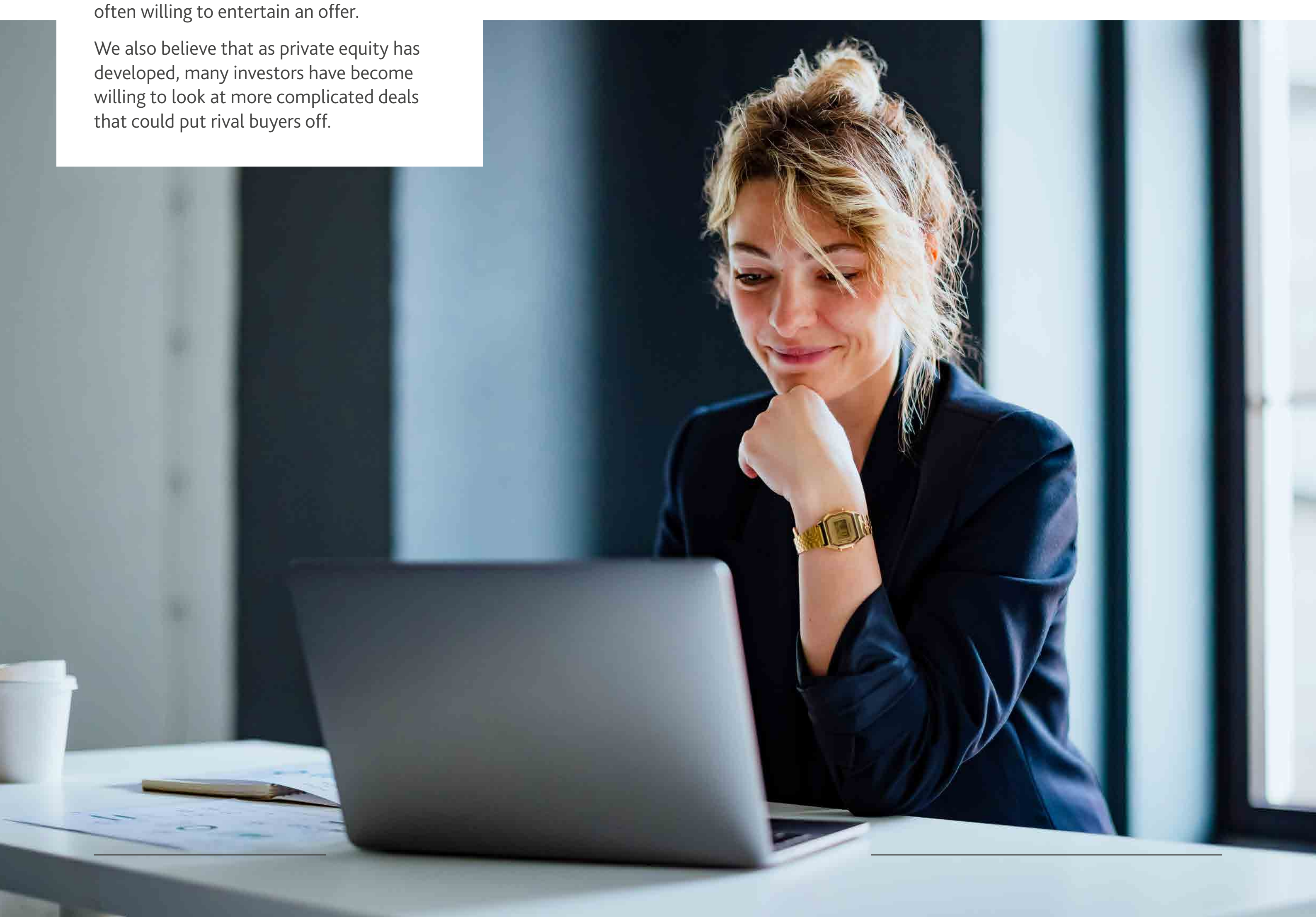
Availability of debt

Lower equity values

Greater ability to research targets

Appetite for complex deals

Suitable targets and sellers



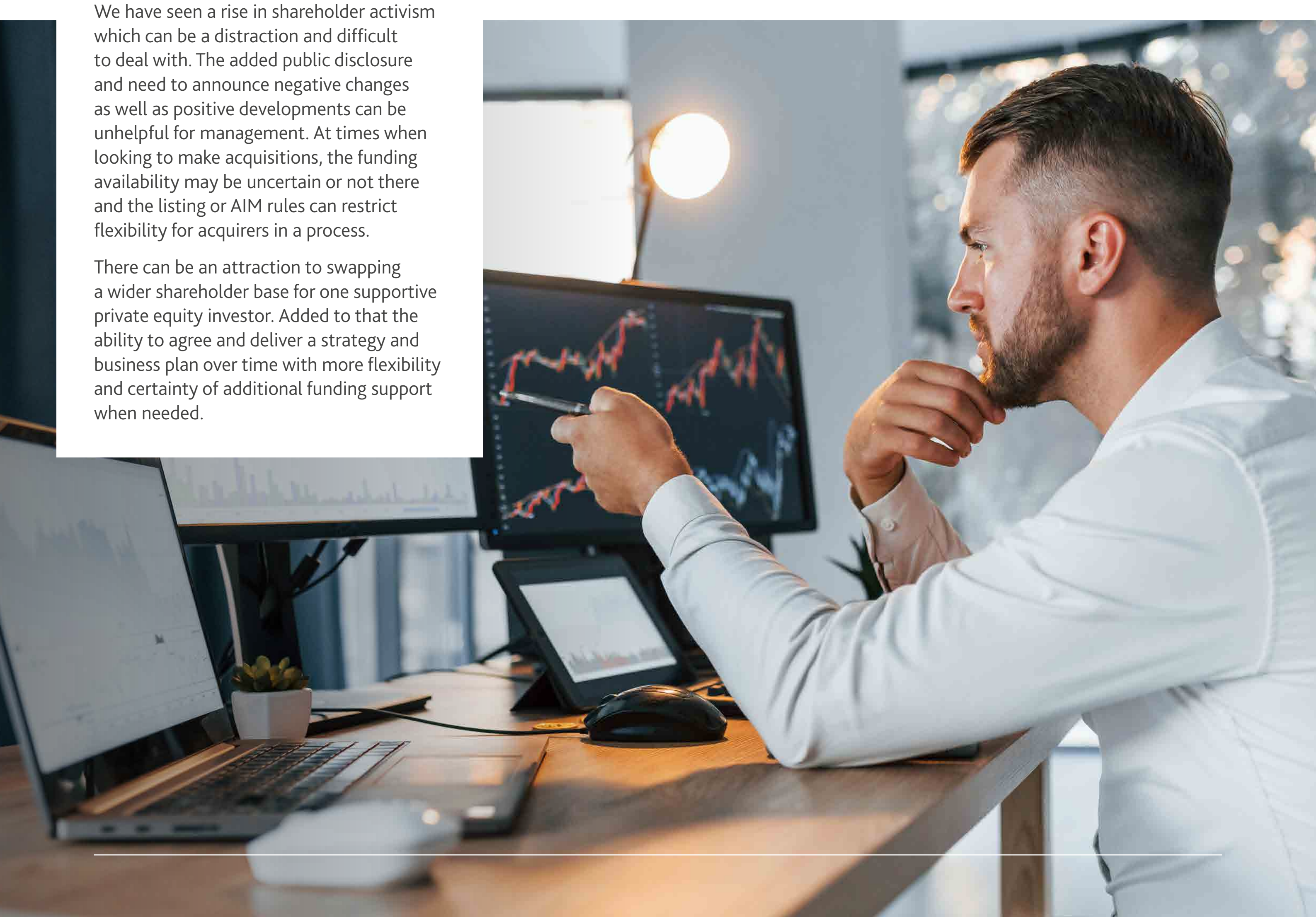
Management factors

For management teams running public companies, there may come a point where the capital markets are not working for them as well as they once did. Capital markets evolve and the size threshold of a company to attract the full range of investors tends to go up over time. Having a publicly traded share price can be a benefit when it is rising or an impediment when it is falling or being volatile. Many smaller public companies suffer from a lack of investment research and liquidity which can hamper the share price.

The costs of maintaining a listing can be high both in terms of the monetary cost and the amount of management time spent speaking to a wider range of investors. We have seen a rise in shareholder activism which can be a distraction and difficult to deal with. The added public disclosure and need to announce negative changes as well as positive developments can be unhelpful for management. At times when looking to make acquisitions, the funding availability may be uncertain or not there and the listing or AIM rules can restrict flexibility for acquirers in a process.

There can be an attraction to swapping a wider shareholder base for one supportive private equity investor. Added to that the ability to agree and deliver a strategy and business plan over time with more flexibility and certainty of additional funding support when needed.

- Share price
- Regulatory burden
- Costs of maintain listing
- Visibility, scrutiny
- Market support
- Flexibility



How public to private deals work...

A different risk profile to acquiring a private company

Acquiring a public company can be very different from acquiring a private company. The sale and purchase agreement is replaced by an offer document or scheme of arrangement document that contains little in the way of warranty and indemnity protection and there is no concept of exclusivity. Deals by their very nature are much more public once they reach an announcement stage than a private deal.

Governed by a framework and a regulator

Most UK public companies are subject to the Takeover Code (the 'Code') which is operated by the Takeover Panel (the 'Panel'). The Code or blue book as it was often referred to, is based around six general principles and a series of more detailed rules for an orderly framework in which to conduct takeovers. The principles include equality of treatment of shareholders and avoiding creating a false market in the shares. The Panel itself is made up of a permanent Executive and a number of secondees from banks, law firms and accountancy firms.

The approach and the implication of early announcements

The Code places a large importance on secrecy and the approach to a public company and on monitoring the share price for any untoward movements and the press for any leaks. Before an approach this is the responsibility of the potential bidder and the Panel expects to be consulted where needed and may require a form of announcement of interest. Tactically, this is important for a private equity bidder as it may find itself being named before it is ready. Private equity bidders should do as much desk top research as they can to decide on their interest and pricing strategy.

After an approach, the same monitoring rules apply and a leaks announcement could still be required, naming the interested party and starting a four week put up or shut up period (although there are exemptions where there is a formal sale process similar to a private company auction process). Again, tactically it is crucial that a private equity bidder makes every effort to ensure confidentiality and secrecy to guard against the situation becoming public ahead of time.

The independent directors and financial advice

The target company will need to be prepared to grant permission to management to have discussions and explore a deal. It will need to appoint an independent committee of directors and take its own financial advice (the so called Rule 3 advisor) on the terms of any offer. The private equity bidder would be looking to agree terms to secure a recommendation of its offer to shareholders.

Due diligence and deal protections

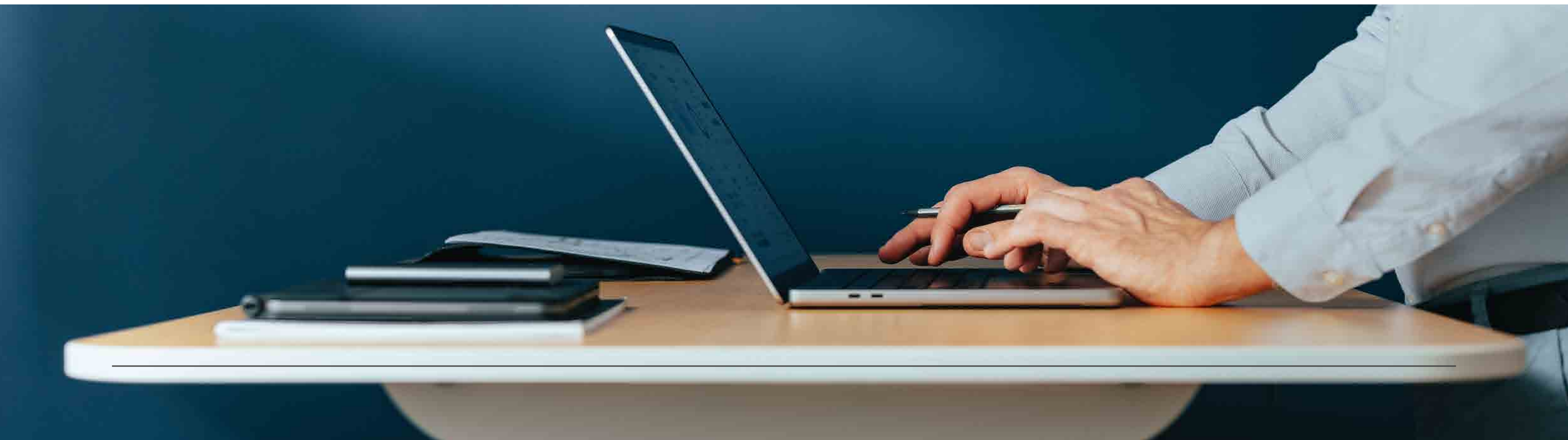
Once a headline price has been agreed, it is possible to do as much due diligence as on a private deal. The Code however does include an equality of information requirement for other interested parties which in practice may present some concerns. The management financial plan also needs to be shared with the independent directors and Rule 3 advisor as part of their assessment.

The extent to which a buyer can complete due diligence varies significantly and some of the usual diligence focus items, like net debt and working capital are less relevant to price. The key is understanding the level of access available, which often increases as the deal becomes more certain, and phasing the work appropriately.

In contrast to a private deal, there is no disclosure exercise and no warranty protection which increases the need for adequate due diligence. A private equity bidder can include terms and conditions to invoke an offer but in practice the Panel would only allow them to be invoked in very limited circumstances. Inducement or break-fees are not permitted, save in the case of a formal sale process.

Unlike a private deal, any completion mechanism needs to be covered in due diligence as there is no opportunity for a post offer working capital true up. The costs of the target company are borne by the bidder rather than the selling shareholders and factored into the pricing and returns analysis.

In our experience, a bespoke and flexible approach to due diligence works best, hitting the key value areas early and evolving as more information becomes available.



…and navigating the takeover code

Exit considerations

Could another IPO be a possible exit option for the private equity investor? It is possible but the company would need to look different in terms of size. This could be viable for a buy and build play or a restructuring away from the spotlight of the market. More likely, the exit would be sale to a strategic investor or a secondary private equity deal.

Management incentives

There are restrictions on management rollover and incentives under the Code. Generally these would be subject to Rule 3 advice and an independent shareholder vote in addition to the wider shareholder acceptance of an offer.

Financing the offer

As with usual private equity deals, it is possible to use bank debt but the banks will have an interest in the acceptance level in order to obtain their security on the assets of the target. A public company is not able to provide financial assistance and therefore will need to be de-listed and re-registered as a private company. This needs a special resolution or 75% of the votes in favour but in theory could be blocked by an objecting 5% shareholder.

With a contractual offer, the 90% acceptance condition may become more important as it allows the squeeze out provisions to be applied. In practice that may well align with a private equity bidder seeking to gain full control. Increasingly, a scheme of arrangement has been used which binds at 75% of votes by value representing 50% in number.

The Code also requires a cash confirmation statement for which the Panel holds the financial advisor to the bidder responsible.

Irrevocable undertakings and share purchases

It is possible to seek the support of the larger shareholders in the target company to accept an offer. Most will not wish to be made insiders too early as it will restrict their ability to deal and there are announcement implications and mandatory offer implications under Rule 9 for a bidder to consider. The gathering of irrevocable support is therefore usually left to just prior to a firm intention to announce and after all due diligence has been completed. Most institutional shareholders will only provide a soft irrevocable with a price hurdle in case of a higher competing offer post announcement.

It is also possible to purchase shares subject to insider trading restrictions but there are a number of Code implications and practical considerations.

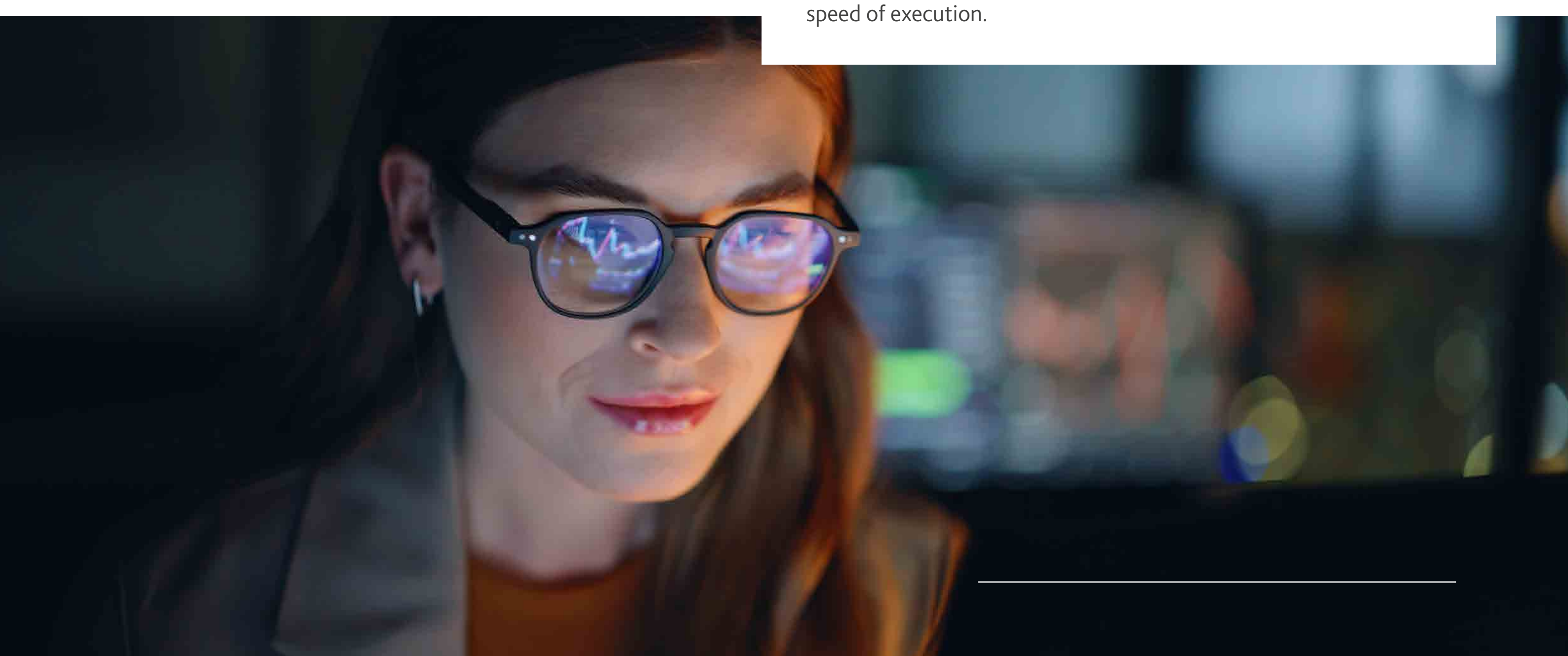
Intentions for the target company

The Code places a requirement for the bidder to set out its intentions for the target business, employees and locations and for the independent directors to comment on. In practice this may be more of an issue for a strategic bidder wishing to make changes than a private equity bidder backing a management team's business plan for growth. The Code requires consultation by the target company with employee representatives and any pension trustees.

The Code also requires some level of disclosure on the private equity bidder and for one or more of its partners or directors to take public responsibility for some of the information included in the offer document.

Competing bidders

As the Code does not allow for exclusivity it is possible for a competing bidder to get involved at any point after a leaks announcement or a firm offer announcement. This reinforces the need for secrecy, preparation, irrevocable support and speed of execution.



BDO advising on takeover offers and public to privates

Our senior team members have each advised on over fifty takeover offers. This has included acting for the bidder and as Rule 3 as well as providing transaction services advice on all types of takeovers including contested offers and bid defence. On private equity led deals we have acted for numerous private equity houses and family offices. We are able to combine these skills with sector expertise where required and full private equity deal support including financial modelling and negotiation support.

Miroma Set Limited

Share offer by Miroma Holdings, a minority shareholder

LightwaveRF plc

Strategic review and formal sale process by the company which has existing private equity shareholders

AFI Development plc

Public to private of the company through an offer by its largest shareholder, Flotonic valuing the company at $413m

Electronic Data Processing plc

£12m offer by Kerridge Commercial Systems Group and its private equity investor Accel-KKR

Business Control Solutions Group Limited

£52m offer for the company by an Employee Ownership Trust

Electric Word plc

£17m offer for the company by a family office and Silva International

Ensor Holdings plc

Formal sale process resulting in interest from a number of private equity investors

Tamar European Industrial Fund Limited

£54m offer by a fund managed by US real estate private equity firm Starwood Capital Group

Pochin's PLC

£33m public to private of the company by family shareholders

Datong plc

Offer for the company by Seven Technologies Holdings, a company supported by YFM

COBRA Holdings plc

£14m offer by management, supported by Macquarie

Imagesound plc

£10m offer by management and Vespa Capital

Rotala PLC

Provided financial due diligence services to HSBC, for the take private of Rotala

Eckoh PLC

Provided financial due diligence services to Bridgepoint for the recommended cash acquisition of Eckoh plc

Field Systems Designs Holdings plc

Public to private of the Company by management

Contacts

John Stephan
Partner, Head of Global Mergers & Acquisitions

+44 (0) 797 970 6731
john.stephan@bdo.co.uk

Susan Jarram
Director, Plc Advisory

+44 (0) 781 775 1948
susan.jarram@bdo.co.uk

Jamie Austin
Partner, Global Head of Private Equity

+44 (0) 777 192 8208
jamie.austin@bdo.co.uk

Sarah Ziegler
Partner, Head of Financial Sponsor Coverage

+44 (0) 777 299 0354
sarah.ziegler@bdo.co.uk

Derek Neil
Partner, Head of Transaction Services

+44 (0) 796 601 0272
derek.neil@bdo.co.uk

Jo Davenport
Partner, Transaction Services

+44 (0) 780 068 2103
jo.davenport@bdo.co.uk

BDO international: A single network with global reach

US$15 billion
2023/2024 REVENUE

A YEAR ON YEAR INCREASE OF 7%[1]

166 COUNTRIES & TERRITORIES

1,800 OFFICES
119,000 STAFF

1. At constant exchange rate
All numbers updated as of 18 December 2024

BDO GLOBAL DEAL ADVISORY

1,748 COMPLETED DEALS IN 2024

42% PRIVATE EQUITY DEAL INVOLVEMENT

23% OF OUR DEALS ARE CROSS BORDER

ONE OF THE MOST ACTIVE ADVISERS GLOBALLY*

2,500 DEAL ADVISORY PROFESSIONALS

115 COUNTRIES PROVIDING DEDICATED DEAL ADVISORY SERVICES

*Ranked 1st Financial Advisor globally – Factset league tables 2024
1st most active Advisory & Accountant globally – Pitchbook league tables 2023
2nd leading Financial Due Diligence provider globally – MergerMarket global accountant rankings 2024

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