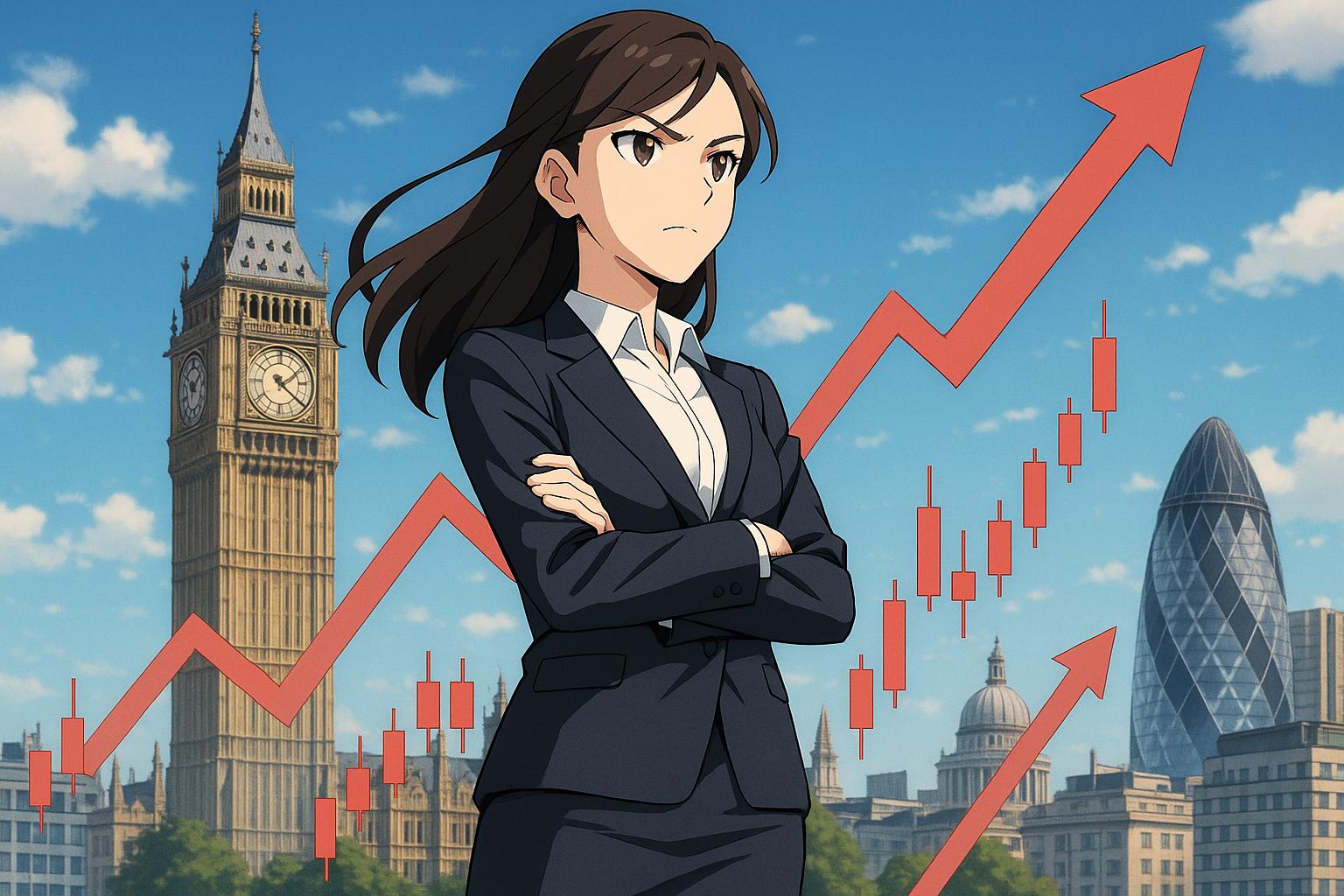
# H&T Group takeover signals surge in foreign bids for UK small and mid-caps



H&T Group's recent shift away from its long-standing presence on London’s AIM market has underscored a growing trend of overseas acquisitions of UK small and mid-cap companies. The pawnbroking chain has agreed to a £297 million takeover by US-based FirstCash, a decision that was met with a significant 42 per cent surge in its shares following the announcement of the 661p-per-share offer. This includes a cash payment of 650p along with a final dividend of 11p, marking a 44 per cent premium over H&T’s closing price prior to the deal.

This acquisition reflects a broader phenomenon in the UK market, where many overseas buyers are keenly targeting undervalued assets, particularly in sectors that extend beyond the FTSE 100. Valuations across the UK’s small and mid-cap enterprises have remained significantly lower than historical norms, attracting foreign interest amid an overall global trend towards mergers and acquisitions. In fact, the current wave of M&A activity in the UK has surged by 84 per cent compared to the previous year, driven by the perception that UK stocks—especially those outside the FTSE 100—offer favourable conditions for investment, despite the risks associated with such undervaluation.

The potential for further takeover activity has not gone unnoticed by hedge funds, which are reassessing their strategies in light of the recent market volatility. Following a series of unexpected upticks in share prices for companies such as Hargreaves Lansdown and Darktrace amidst takeover bids, there is an increasing wariness about short-selling UK stocks. Many hedge funds, including notable names like Millennium Management and Gladstone Capital Management, are now diversifying their short positions or reducing their exposure to mitigate risk.

The H&T acquisition also draws attention to a complex backdrop of market hesitation, as recent failed takeovers illustrate the challenges in this space. Boards at companies like Currys and Direct Line have firmly rejected offers, deeming them as undervaluing their assets. Data indicates that the share of withdrawn takeover offers has increased significantly, rising from 8% to about 17% in recent years, suggesting a growing reluctance among companies to accept bids that fail to reflect their perceived worth.

Contextually, the broader UK stock market has underperformed compared to both European and US indices, with the FTSE 100 and FTSE 250 lagging as investors grapple with economic uncertainties and elevated financing costs that hinder the execution of private equity-led buyouts. UK government initiatives, such as tax incentives for retail investors and a push for institutional investment, have been introduced to bolster the allure of local shares. Despite scepticism expressed in financial circles regarding the attractiveness of UK stocks—questioning whether they are undervalued for valid reasons—many investors are keenly hunting for potential bargains.

Amidst these trends, smaller companies have also caught the eye of private equity firms. For instance, recent acquisitions like Ergomed have showcased how smaller firms can attract significant premiums—bringing to light opportunities for investors willing to explore beyond high-profile enterprises. Furthermore, the concept of 'nearology' in mining, suggesting that proximity to successful mines can enhance investment potential, has buoyed shares for companies such as Metals One, hinting at the broader market dynamics where strategic positioning can drastically affect company valuations.

H&T's situation encapsulates the ongoing complexities of the UK market, where undervalued assets are being eyed by international buyers, amidst an intricate landscape of changing investor sentiment, failed bids, and evolving strategies in the pursuit of growth. As small and mid-cap sectors continue to grapple with these changes, the outlook remains cautiously optimistic for both investors and companies navigating this transformative phase.

### Reference Map

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6. Paragraph 6: 5
7. Paragraph 7: 1, 7

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.dailymail.co.uk/money/investing/article-14719429/SMALL-CAP-MOVERS-H-T-latest-bargain-basement-takeover-victim.html?ns_mchannel=rss&ns_campaign=1490&ito=1490> - Please view link - unable to able to access data
2. <https://www.ft.com/content/e4d32fb6-4f42-41bc-adf1-9a10edec4928> - Hedge funds are increasingly cautious about betting against UK stocks after a series of takeover bids have resulted in significant losses. Notable firms like Millennium Management, GLG, and Gladstone Capital Management saw unexpected surges in the stock prices of companies such as Hargreaves Lansdown, Darktrace, and Keywords Studios following acquisition offers. These bids come amidst a wider trend of increased M&A activity in the UK market, which is 84% higher than the previous year. Hedge fund managers are finding the low valuations of UK mid-cap stocks attractive to foreign rivals and private equity buyers but a risky target for shorting. The disparity between the valuations of UK stocks and other markets, especially the US, is driving this flurry of deals. Hedge funds are now adjusting their strategies, spreading their short positions across more stocks or reducing the size of their positions to manage risk. The situation highlights the volatility and increased risk associated with shorting UK stocks under the current market conditions.
3. <https://www.reuters.com/markets/europe/uk-takeovers-flop-as-boards-rebuff-low-valuations-2024-03-05/> - Failed takeovers of UK-listed companies have more than doubled recently due to rebuffed offers from boards citing low valuations. Companies such as Currys and Direct Line have rejected bids, feeling they undervalued their stock. In particular, private equity-led buyout volumes dropped in 2023 amid high financing costs and uncertain economic conditions. The share of withdrawn takeover offers increased from 8% (2014-2020) to about 17% (2021-2023). Despite the rise in UK takeover activity, the FTSE 100 and FTSE 250 indices have underperformed compared to European and US indices. Market conditions and regulatory rules like the “put up or shut up” period make deal execution more challenging. Strategies like "private bear hugs" are being used to gain shareholder support directly. Although a slight increase in activity is expected this year, completing deals remains complex due to financing difficulties and elevated valuation gaps between buyers and sellers.
4. <https://www.ft.com/content/c1b1167c-9ddb-4882-b1db-d0a9ddc04643> - With UK stocks trading at significantly lower valuations compared to their US counterparts, the British government is incentivizing retail investors with tax breaks, such as a new UK Isa, and encouraging institutional investors to buy local shares. Despite Robert Armstrong's scepticism in the Financial Times' Unhedged newsletter about UK stocks being cheap for a reason, many investors seek potential takeover targets and undervalued opportunities, particularly in the FTSE 250 index. Takeovers in 2024 have seen premiums averaging 49%, indicating individual stock bargains. Key sectors attracting interest include financials, housing, and reinsurance, with significant share buybacks and capital returns such as Barclays’ £10bn plan and Scottish Mortgage’s £1bn buyback. Falling inflation, potential interest rate cuts, and economic improvements could further support medium-term prospects. Dividends remain a major draw, as some stocks offer high yields despite low valuations, making UK equities attractive for generating tax-free income within Isa portfolios. With some liquidity and research challenges, investors are urged to explore smaller companies and overlooked sectors for diversification and potential long-term gains.
5. <https://quoteddata.com/research/montanaro-uk-smaller-companies-mc/> - In September 2023, Permira, a global private equity firm, announced its acquisition of Ergomed, a UK-based clinical research service provider. The takeover was worth £700m, or £13.5 a share, and was completed in November. The deal represented a 28.3% premium to Ergomed’s share price on 1 September. Permira was likely attracted to Ergomed’s ‘pick and shovel’ approach, whereby it provides the services and facilities to run the pharmaceutical trails without actually being involved in the research itself, allowing Ergomed to benefit from the secular growth in pharmaceuticals demand without being exposed to risks associated with the often-binary outcomes of clinical trials. Dechra Pharmaceuticals is an international veterinary company that was purchased by private equity firm EQT on 23 June 2023 for £4.46bn or £38.75 per share, a premium of around 45% on the day. Prior to its sale Dechra ranked seventh in the world for veterinary product distribution, offering a wide range of products and service to vets: 75% to dogs and cats; pigs and cows 11%; horses 7% and pet foods 5%. Dechra was also a good example of a successful investment by Charles; he first invested in the company when it floated in September 2000 at £1.20p per share. Entering the market with a capitalisation of £60m; it was too small for many of the larger financial institutions, but perfect for MTU.
6. <https://www.investorschronicle.co.uk/content/189539c1-7c9c-5fae-9c2e-03b2ca535a0f/> - Mpac (MPAC:523p), a specialist provider of automated packaging systems, expects pre-tax profit to exceed £10mn for the first time in its history when the group releases annual results in late April. Buoyed by operational efficiencies and improving project margins, second-half pre-tax profit of £6.6mn was materially higher than the first-half profit of £3.9mn, with the operating profit margin rising from 7.5 to 11.9 per cent. On this basis, full-year pre-tax profit of £10.5mn is not only expected to exceed the previous record of £8.6mn in 2021, but will be almost 50 per cent above the 2023 result. Moreover, the group is now a more balanced, diversified and higher-quality business following the acquisition of Massachusetts-based Boston Conveyor & Automation (BCA), a US-based supplier of robotic automation and conveyor solutions to the food, life sciences and general industry sectors, and Netherlands-based CSi Palletising, a leading provider of design, manufacturing and installation services for end-of-line automation and palletising solutions. The acquisitions completed in September and December, respectively, and helped drive up the group’s closing order book from £72mn to £111mn year on year, providing around 50 per cent coverage to analysts’ 2025 revenue estimates. The directors also highlight strong quote activity and business pipeline across Mpac’s key growth sectors (healthcare and food & beverage).
7. <https://www.fool.co.uk/2023/11/23/uk-small-cap-stocks-look-cheap-right-now/> - A couple of UK smaller companies announced they’d accepted takeover offers at the back end of last week. Premium pubs and hotels chain City Pub Group is set to be acquired by larger rival Young & Co. Its shares leapt 37% on the announcement. Meanwhile, fancy chocolatier Hotel Chocolat said it’s accepted an offer from US multinational confectionary giant Mars Inc. Its shares rocketed an eye-popping 162%. What do these takeovers mean for investors? And what do they tell us about valuations in the wider UK smaller companies sector? Are UK small-cap stocks on offer at bargain prices right now?