

Activist Gatemore targets double-digit stake builds as path to PE exits – partner

16:26 GMT, 10 January 2023

- Activist investor actively upping stakes from 3%-5% towards 20%
- Allows greater influence on value-creation and to push for M&A process
- Activism campaigns tipped as increasingly leading to private equity takeovers

Amid a sluggish UK small-cap equities market, activist Gatemore is moving towards taking larger stakes that can drive better value-creation and private equity takeovers within its portfolio, managing partner Liad Meidar told this news service.

The investor, like its peers, has historically built 3% - 5% stakes and then effected change by trying to corral other shareholders. But a cheap stock market has presented a chance to build bigger positions that can exert more influence.

“About a year ago we made a distinct decision to move away from smaller positions,” said Meidar. “15% - 20% will become more common, even all the way through to take private. At a high single digit, we start to feel like we can have meaningful influence and 15% is a very strong voice at the table.”

That sway can push for board and management changes, said Meidar, alongside corporate activity like a fresh capital allocation policy, the sale of a division or the sale of the business.

A core example is British courier and logistics company DX (Group) [LON:DX], where Gatemore has a 20% stake having first entered the capital in 2017. Its [influence](#) helped to [oust](#) the company’s chairman Ron Series, with the activist pointing to governance failure and a declining stock price.

The investor has also helped push a turnaround on the financials, Meidar said. DX’s annual reports show that the company reported GBP 7.2m EBITDA in 2017, up to GBP 50.3m in 2022

Looking to future investments, Gatemore will likely avoid sectors that have uncontrollable commodity elements like materials and utilities, and is broadly focused on consumer and industrial names, said Meidar.

The investor is also moving from an open fund strategy, to actively raising a close-ended fund with a finite life that gives some flexibility around the holding period. That opens more opportunities in sectors like consumer with good brands that will do well in the long-term, he said.

Mayday for UK

Gatmore acts in what it describes as a particularly stagnant UK small-cap equities market, where some companies have lost 60% - 90% of peak market value.

The FTSE SmallCap Index is down 13% over the past 12 months as of today (10 January), with Alvarez & Marsal identifying 144 companies at risk of activist attacks in the next 18 months according to its recent A&M Activist Alert.

Meidar said the market is illiquid partly due to the dominance of pension funds and insurers that pass the legacy of dividends over growth down to management teams, and then Brexit that kicked off a new wave of value differentials.

“All of that had led to an under-allocation into the market,” he added.

This, and the cheap pound, is creating opportunities for investors like Gatmore to start building big blocks in places that are fundamentally good but underperforming for a variety of reasons. “I don’t know if we could have a better buyer environment if you afford yourself the patience to let it play out over a few years,” said Meidar.

Pushing private

With financial sponsors ever looking for opportunities to deploy, activist situations are increasingly seen in the market as places for private equity takeovers, especially once the ongoing difficulties in underwriting buyouts start to resolve, Meidar said.

Sponsors have acquired activist assets, much like Triton’s GBP 1.2bn [takeover](#) of Clinigen after Elliot Management was [pushing](#) for a break up of the group. Other companies could become targets amidst activism pressure, this news service’s *Flash* column has argued, such as Swiss holiday booking platform Lastminute.com [SWX:LMN], which has been urged by investor Dark Horse to put itself up for sale, according to media reports this autumn.

“In this environment, that’s going to be the main exit route as there are no buyers for large blocks of shares,” said Meidar.

With the higher influence of a large stake, activists like Gatmore can get the company ready, get potential buyers to look at the name and possibly make an approach, by which time the company is normally ready to appoint advisors, Meidar said.

Funds do have dry powder ready to deploy into public markets. Advent International has said take-privates are a key strategy of its latest USD 25bn global fund as reported, while others have already been active in the space, like Astorg in its [de-listing](#) of Euromoney. HIG is also looking for carve-out opportunities for orphaned assets in listed conglomerates, as reported by this news service.

“There’s a double upside,” said Meidar. “We’ve enacted some kind of turnaround so that the share price rerates and then pushing the company into play gets a private equity premium on top.”

by Rachel Lewis

TARGET

[DX \(Group\).plc](#)

BIDDERS

[Gatemore Capital Management LLP](#)

[Show more](#) [Show less](#)

Topics

- Auction/Privatization
- Private equity related
- Takeover situations

Geography

- United Kingdom

Sectors

- Financial Services
- Transportation

Sub-Sectors

- Freight and other transportation services
- Fund management
- Investment banking
- Mail and package shipment
- Venture Capital/Private Equity

Intelligence ID: intelcms-d66jhh

Grade

Confirmed

Charge Code

Not set