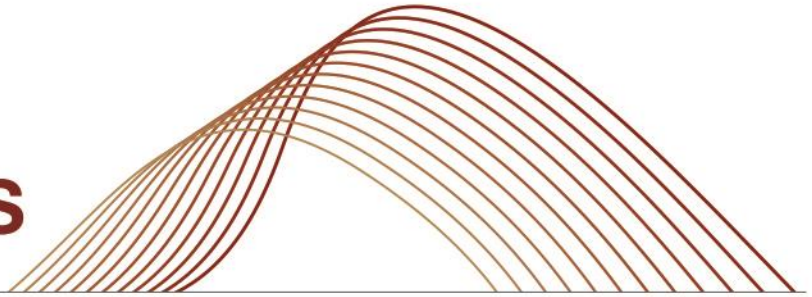
PAUL HASTINGS

PH PERSPECTIVES



September 2019

Follow **@Paul_Hastings**

Low Value of Pound Spurs Investment

By Arun Birla & Matthew Poxon

Is the falling pound an opportunity for London?

Speculation around a general election, ongoing parliamentary discussions, and a no-deal Brexit appearing more likely, has meant that the pound fell below $1.20, the weakest sustained level since 1985. Although the pound has since recovered momentarily, analysts may have been correct when they warned that the pound falling could spur on a sell-off that could push the pound towards a one-for-one exchange rate with the dollar. While it's fair to say that selected financial markets and analysts were nervous about the prospect, not everyone stands to suffer. In fact, London, like many other markets around the world, stands to benefit from the decline in the pound.

Whilst upcoming uncertainty may be making it more challenging for UK companies to make decisions, for some based overseas it presents a prime time to consider making a move into the UK market and purchase much sought-after assets.

London continues as a hub for deals

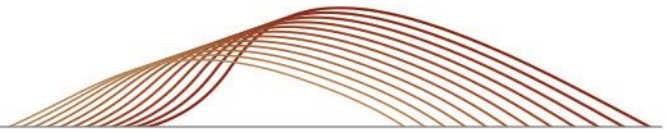
As one of the world's oldest and highly regarded financial centres, London has long had a strong track record for doing good business. And it's no different today. The drop in the pound has proven to be a prime opportunity for overseas investors to venture into the London market, lured in with the prospect of a better deal thanks to current exchange rates.

In particular, we continue to see vibrant activity in the US-UK corridor, especially in the public to private market. For example, in the first half of 2019, of those transactions subject to the UK Takeover Code (public M&A) there was 33 firm offers for Main or AIM companies, up from 22 in the same period of 2018, largely fuelled by overseas buyers. In fact, recent Thomson Reuters data shows almost half (46%) of deals in H1 2019 involved a non-UK bidder.

Resistance from the board

As a by-product of increased investment and as corporate investors grow in confidence, the number of hostile takeover bids has also risen. Currently, there is growing sentiment on target boards that assets are being valued at less than their market value due to current macroeconomic factors. Target boards are therefore becoming reluctant to recommend a deal, feeling that in the long run, they're probably being short-changed.

When we talk about hostile takeovers in the UK public M&A context, we are only talking about whether or not the target board recommends the deal to their shareholders. In the UK, the rules and regulations governing public takeovers have evolved from a system of self-regulation, therefore the final decision on a deal is ultimately down to shareholders and not one for the board.



Whilst the quickest transactions to acquiring 100% of the shares of a target in a public takeover are those that are recommended by the board, a lack of a recommendation is not enough of a barrier to successfully executing a transaction if the offer is attractive to shareholders.

It is true that the falling pound can absolutely be an opportunity for overseas corporates looking to invest in the UK market, however a favourable exchange rate is not enough of a driver to proceed with a deal – it is only a contributing factor.

✧ ✧ ✧

If you have any questions concerning these developing issues, please do not hesitate to contact either of the following Paul Hastings London lawyers:

Arun K. Birla
44.020.3023.5176
arunbirla@paulhastings.com

Matthew Poxon
44.020.3023.5171
matthewpoxon@paulhastings.com

Paul Hastings LLP

PH Perspectives is published solely for the interests of friends and clients of Paul Hastings LLP and should in no way be relied upon or construed as legal advice. The views expressed in this publication reflect those of the authors and not necessarily the views of Paul Hastings. For specific information on recent developments or particular factual situations, the opinion of legal counsel should be sought. These materials may be considered ATTORNEY ADVERTISING in some jurisdictions. Paul Hastings is a limited liability partnership. Copyright © 2019 Paul Hastings LLP.