

What New UK Stub Equity Rules Will Mean For PE Bidders

By **Gordon Milne, Will Pearce and Joseph Scrace** (July 29, 2025)

The U.K. Panel on Takeovers and Mergers, known as the Takeover Panel, published guidance for a bidder that intends to offer target shareholders an unlisted share alternative to cash consideration, commonly referred to as a stub equity offer.[1]

The guidance is set out in a new practice statement issued by the panel that was made available online on July 3.[2] It largely codifies existing market practice and a historic review of stub equity arrangements by the panel to ensure target shareholders are treated equally,[3] and that there are no special deals with selected shareholders.[4]

It formally harmonizes for the first time the approach bidders must take to offering stub equity, including the structure of the offer and the terms of the unlisted securities, and related disclosure requirements.

Background

The first half of 2025 continued to be a busy period for takeovers in the London Stock Exchange main market and alternative investment market, or AIM, companies, with 37 firm offers announced already. For context, a total of 56 firm offers were announced during the whole of 2024, 57 in 2023 and 46 in 2022.

While the number of successful take privates of main market and AIM companies by private equity, or PE, bidders have fluctuated, overall market activity has been driven by PE bidders and the unlisted share alternative is a commonly used tool in their tool kit.

For a PE bidder, stub equity reduces the upfront cash funding requirement to take a target company private, and can help to bridge any perceived valuation gap between the offer price it is proposing and the valuation expectations of target shareholders. It achieves this by offering them a continuing interest in the future performance and value of the target.

Further, a stub equity component can help generate support from target shareholders who want to remain invested in the target, but are happy to crystallize some value at the offer price.

It also allows a PE bidder to compete with a listed strategic bidder who otherwise has the advantage of being able to offer listed shares as consideration to target shareholders.

In the period from Jan. 1, 2020, to June 30, 2025, 19 firm offers announced for main market and AIM companies included an unlisted share alternative. Most of these transactions were take privates by PE bidders, including, most recently, the take private of FD Technologies PLC by TA Associates Management LP, with one notable exception to the use of an unlisted share alternative by strategic bidder Mars Inc. in its takeover of Hotel



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Key Points in the Guidance

The key points in the guidance for PE bidders contemplating a take private where target shareholders will be offered stub equity as an alternative to cash consideration are as follows.

Equality of Information for all Shareholders

A bidder that wishes to discuss a stub equity alternative with a target shareholder should be mindful of the rules governing the equality of information between shareholders. Depending on the circumstances, the panel may require any material new information communicated to a target shareholder to be announced, any document shared with them in a meeting to be published on a website, and for any meetings to be chaperoned by the bidder's financial adviser.

Limited Ability to Exclude Shareholders

Only in limited situations can a bidder exclude a target shareholder from receiving stub equity. Restrictions may be permissible where:

- Overseas laws or regulations result in a significant risk of civil, regulatory or criminal exposure if the offer is made to shareholders in a particular jurisdiction;
- If a person is sanctioned; or
- If law or regulation restricts a person from holding more than a certain amount of share capital in the new company established as the bidder, referred to as the Bidco.

However, neither reputational harm nor excluding competitors are permissible restrictions. Nor are, of themselves, a sponsor's know-your-customer, other compliance procedures or fund documentation terms — without the above legal or regulatory risks.

No Special Deals in Terms of Stub Equity

The rights and restrictions attaching to stub equity are for the bidder to decide, but shareholders are not permitted to receive special deals with favorable conditions. A preferential exit opportunity offered by a bidder to a specific shareholder that is not offered to all shareholders is a clear example of this.

This is key for a bidder to bear in mind, particularly where a primary reason for offering a stub equity alternative is to encourage a large shareholder to commit to its offer.

However, subject to consultation, the panel may permit certain proportionate governance rights, e.g., director appointment rights, reserved matter consent rights and information rights being granted to any shareholder that holds at least a specified percentage of shares in the Bidco, even if it is apparent that a particular target shareholder will be the eventual holder of such rights on closing.

Limits on Size of Stub Equity Offering

Minimum and maximum thresholds are permitted. A bidder may specify a maximum number of Bidco shares that may be elected for, e.g., 40% of the Bidco's share capital, with excess elections scaled back pro rata.

A bidder can also set a minimum number of Bidco shares that must be taken up before anyone receives the stub equity alternative, e.g., 3% of the Bidco's share capital.

However, an individual minimum numerical threshold, e.g., the need to elect for at least 100 shares or shares worth at least \$1,000 is not permitted, as this may not be viable for all shareholders.

Potential Dilution of Stub Equity

Arrangements that effectively dilute the share exchange ratio must be disclosed. A readily understandable exchange ratio on a per-target-share basis, e.g., one Bidco share for one target share, must be stated by the bidder.

In addition, any arrangements that would result in a target shareholder's eventual Bidco shareholding being diluted, such that it ends up with fewer shares than expected based on the exchange ratio, need to be disclosed.

This includes a cash subscription for Bidco shares by another bidder group company for the Bidco to be put in funds to discharge its offer related fees and expenses.

Value of Stub Equity

The estimated value of the unlisted shares must be set out in the offer document by an appropriate adviser, normally the bidder's financial adviser.

The adviser must explain how the estimate of value per unlisted share relates to each share in the target company, and set out the estimated total enterprise value and implied total equity value of the Bidco, which is particularly relevant if the Bidco is leveraged.

Shareholder Representatives and Nominee Structures

Shareholder representatives and nominee structures for smaller holders are unlikely to be permitted. The panel is unlikely to permit terms that provide for a particular shareholder to act as a shareholder representative with the power to make decisions or waive rights on behalf of minority shareholders.

Nor, for the same reason, will the panel permit bidders to impose a nominee trust structure on certain shareholders below a certain percentage holding, as sponsors often do with smaller employee shareholders, although imposing the structure on all electing shareholders is permissible.

Publication of Documents

The documentation governing the relationship between the Bidco's shareholders must be made publicly available.

Along with the other documentation relating to the offer, any shareholders' or investment

agreement and articles of association will need to be uploaded on the microsite established in connection with the offer from the time the offer document is published.

Impact on PE Bidders

In practice, harmonizing guidance on stub equity offers should be helpful and welcome for both bidders and practitioners and not unduly restrictive of a bidder's flexibility to offer stub equity.

As noted, prior to the guidance, the panel already reviewed stub equity offers in detail and the principles underpinning the panel's guidance are relatively simple: Consultation with the panel early on is important; there must be equivalent treatment of target shareholders, i.e., no special deals or favorable conditions; and target shareholders must be given adequate disclosure to enable them to make informed decisions about the Bidco shares they will be rolling into.

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[1] <https://www.thetakeoverpanel.org.uk/>.

[2] https://www.thetakeoverpanel.org.uk/wp-content/uploads/2025/07/Panel-Statement-2025_8.pdf and <https://code.thetakeoverpanel.org.uk/tp/ps/ps-36.html>.

[3] General Principle 1.

[4] Rule 16.1.