EQ

THE IPO REVIEW Q2 2021

Each quarter, EQ reviews both the UK and international IPO activity.

The report provides readers with in-depth information on the latest listings as well as broader economic factors impacting the IPO market both in the UK and across the globe.

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2021 Q2 IPO Market

Paul Matthews, CEO, EQ Boardroom

In Q2 we saw a healthy crop of listings in London, with strong representation across the tech and service sector with PensionBee and MADE.COM among those newly listed, whilst New York saw its strongest month since Covid struck with $25bn raised in June alone.

In Hong Kong and China we have begun to witness the effects of reining in tech giants with fines, anti-monopoly probes and laws around company's data security policies, leading to delays in going public.

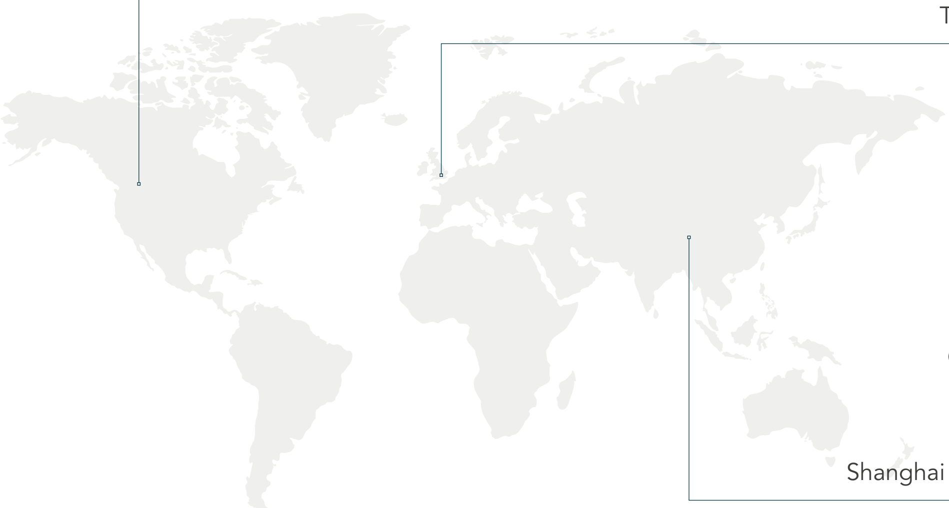
Across all markets we have seen a dramatic uplift in retail investors over the course of the pandemic. The sheer weight of retail investor's money coming onto the market has raised questions about accommodating them better in IPOs, prompting questions from industry leaders.

US

Didi Global – **$4.4bn**
Full Truck Alliance – **$1.6bn**
SentinelOne – **$1.2bn**
Krispy Kreme – **$500m**
UiPath – **$1.3bn**

UK

Darktrace – **£143m**
PensionBee – **£55m**
MADE.COM – **£100m**
Victorian Plumbing – **£11.6m**
Alphawave IP – **£360m**
Oxford Cannabinoid Technologies – **£16.5m**
Taylor Maritime Investments – **£112m**



HONG KONG & CHINA

CARsgen Theraoeutics – **$380m**
Central China Management – **$118m**
JD Logistics– **$3.2bn**
Trip.com – **$1.1bn**
Shanghai Electric Wind Power Group – **$3.6bn**

London

Lord Hill's Listings Report on the future shape of London's IPO market is being examined in the context of very contradictory opinions on whether to liberalise or maintain standards.

The clouds now forming over SPACs (see last quarter's article) and regulatory tightening on tech listings in China suggest caution but the increasing draw of more relaxed New York and Amsterdam exchanges have led for calls to reform in order to compete globally.

More immediately, a bumper crop of companies went public with particularly strong representations from tech and services, helping to make 2021 HI the strongest since 2014. International businesses continue to beat a path to London, but home-grown companies like **AMTE Power** and **musicMagpie** also found their place on the public markets. There's also an increasingly verdant tinge to the exchanges, with five companies accredited with Green Economy Mark.

Darktrace raised £143m with a £2.2bn market cap after a successful listing in April. Women hold the roles of CEO, CFO and heads of marketing and strategy in the company which analyses a client's usual patterns to detect anomalies that might indicate fraud or hacking.

Tech-enabled online pensions provider **PensionBee** is also part of what its co-founder and CEO Romi Savova calls the *"emerging movement"* of women leading listed companies. The ex-Goldman Sachs and Morgan Stanley banker is helping to break through what she has described as the "dire" situation and the "circle of exclusion" involving money flowing from male investors to male founders. As well as institutional investors, **PensionBee** also welcomed thousands of its own customers as shareholders in the £55m raise that was part of its IPO on the High Growth Segment of the Main Market of the London Stock Exchange, valuing the company at £365m.

Taylor Maritime Investments is betting on a growth in world trade with a pipeline of second-hand cargo ship acquisitions totalling $500m, which it believes are selling at a discount of 30% to replacement value. The company is targeting an impressive 7% dividend for its new shareholders, who invested £112m, valuing the company at £180m.

Oxford Cannabinoid Technologies raised £16.5m, giving it market cap of £72m. The company is part of a joint effort with Oxford University to provide medicinal pain relief products and its backers are as diverse as US rapper Snoop Dog and tobacco wrapper Imperial Brands. The company aims to sell its first product in 2027.

Alphawave IP, who license IP to leading edge chip designers, launched onto the public market in mid-May. The IPO was the largest ever listing of a North American company on the London Stock Exchange and attracted £360m of new money on a valuation of £2.47bn.

Made.com, whose mission is to deliver high-end furniture at an affordable price, was valued at £772m in its June float. Sales continue to boom during 2020 with more people spending time on their homes, and the company believes its designer products will continue to be popular post-pandemic. Co-founded by Lastminute.com's creator, the business will use the £100m raise to further enhance customer experience and expand its homewares range.

Another successful London IPO was **Victorian Plumbing** which became the largest ever company to float on AIM. From a garden shed business in 2000 to £986m valuation today, the company employs over 500 people and overs over 24,000 bathroom products on its sites.

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Companies have been eager to exploit renewed investor optimism this year. Healthcare, tech and online retailers have made up a high percentage of listed businesses and have seen this as prime time to float with Brexit and COVID concerns easing.

We can expect to see some nervousness in H2, particularly in the tech sector, where we have seen a few companies not perform as expected on floatation during the first half of the year.

Overall, here at EQ, we're having lots of positive conversations for potential September and October floats, and we look forward to the continued IPO boom into the next half of the year

Robin Walker, Business Development Director, EQ

Hong Kong & China

The assembly line of Chinese and Hong Kong IPOs slowed after Beijing began to rein in the tech giants with fines, anti-monopoly probes and laws allowing the government decision-making rights on a company's data security policies. Chinese tech start-ups, encouraged by relaxations of rules over the past eighteen months, have now begun to delay going public. With regulators now applying brakes as well, there is a reported backlog of 100 companies on Shanghai's STAR market.

This, coupled with ongoing trade tensions with the US, fed through to tough debut performances for the likes of biopharma **CARsgen Therapeutics** which fell 18% on debut and project manager **Central China Management** which initially fell 20% in their respective $380m and $118m raises in Hong Kong.

CARsgen Therapeutics
biopharma raised
$380m

Central China Management
in Hong Kong, raised
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JD Logistics
raised
$3.2bn

JD Logistics raised $3.2bn in Hong Kong's second largest float of the year after Kuaishou Technology. The delivery arm of JD.com has always been a separate entity from its mammoth parent and will use the money to further develop its technology and expand its 900 warehouses domestically and overseas.

Travel services are, however, alive and well in China. In what is thought to be a hedge against political and regulatory changes, the 22-year-old ***Trip.com*** dual listed in Hong Kong as well as New York, raising $1.1bn against a $21bn valuation. The firm is expecting record levels of Chinese tourism and double-digit growth on pre-pandemic numbers.

Shanghai Electric Wind Power Group listed on the SSE with much fanfare as part of China's green power commitment. The company is China's largest off-shore wind generator has a market cap of $2.5bn.

Jack Ma's ***Ant Group*** was forced to abandon its IPO days before its announced November 2020 listing date after upsetting regulators. Although reportedly planning to try again, new limits on equity ratios will cap activity and valuation estimates have fallen around 60% since last Autumn.

New York

Despite the growing trend for Chinese companies to "come home", New York was still buoyed by Chinese companies, impressive in number and size. This helped the exchange raise $25bn in June alone – its best month since Covid struck.

Didi Global achieved a raise of **$4.4bn**

Full Truck Alliance rewarded investors raising **$1.6bn**

SentinelOne raised **$1.2bn**

Krispy Kreme in New York, raised **$500m**

The ride-hailing company **Didi Global** achieved a $67bn valuation and was second only to Alibaba in its $4.4bn raise. Investors appreciated the beginnings of profitability and the quick rebound from pandemic woes. However, within a week of listing, Beijing banned Didi from app stores and barred new registrations in a crackdown that will give further pause to the country's tech companies and their potential shareholders.

With a similar product to Didi but for commercial vehicles, China's **Full Truck Alliance** rewarded investors including Jack Ma and Alphabet with a $24bn valuation in its $1.6bn raise.

Listing on the same day in May were online job platform **ZipRecruiter** and medical protective clothing-maker **FIGS**. In an interesting reflection on the ebb and flow of pandemic perceptions, the recruitment company began trading positively then fell back during the quarter while the scrubs provider surged then lost value before nearly doubling in the course of June.

Following its rival CrowdStrike which listed in January, cybersec **SentinelOne** went public after eight rounds of private funding. Using AI, the Israeli start up now based in California impressed investors by doubling revenue last year, although its losses also doubled. The raise of $1.2bn against a valuation of $8.9bn will allow the company to continue its aggressive expansion with a bigger sales team and a wider offering.

On a similar journey was **UiPath**, the software robotics firm which automates and streamlines workplace tasks. The company was valued at $35bn in its $1.3bn raise. This was an impressive 50x revenue multiple against a backdrop of cooling sentiment to cloud stocks but reflected UiPath's equally impressive 89% gross profit margin.

Krispy Kreme achieved a valuation of $2.7bn for its second listing. Founded in the 1930s, the doughnut maker first went public in 2000 but failed to capitalise on a strong consumer following because of over-expansion and the failure of too many of its franchisees. Although loss-making, it presented itself as a Covid winner and its sales indeed grew 17% during 2020's lockdown. But against the headwinds of strong chain brand competition and the trends towards healthier eating the $500m raise was below expectations and will not contribute as much as hoped to squaring its $1.2bn debt.

> Outside of any new and creditable geopolitical risk that may spur negative volatility of the markets (as measured by the VIX) to slow things down, the global IPO market is poised to continue its record-setting pace into the second half of the year. With so many in-progress de-SPAC transactions and traditional IPOs at various stages of completion, the IPO market is not showing any concerns of a slow-down even with the recent challenges coming from China and new concerns about COVID mutations.
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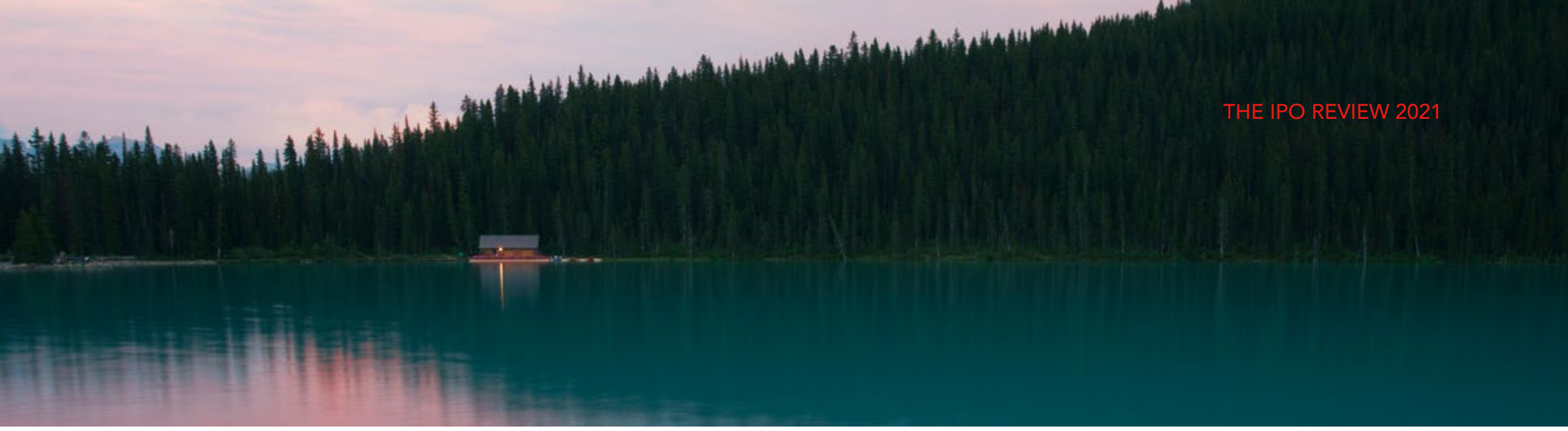
> **Joe Conte, Head of Corporate Actions, EQ (US)**



Trend Spotting: Bulk Buying

The Impact of Retail Investors

Lockdown has seen a dramatic uplift in retail stock market investment. Some newcomers have simply taken advantage of dips in traditional companies but others have pushed tech and biotech shares to astonishing levels with the weight of their numbers while others have collaborated on social media on trades that seem to defy any investment logic. Does this broader participation merely represent a temporary distraction to the pandemic or an historic shift in the investor base that will lead to a fundamental change in market dynamics and how companies go public?

Flock

Retail investment through UK share platforms has increased 40% during the pandemic: a level mirrored and often exceeded globally. The US, for example, has seen a doubling of retail stock trades, now equal to the combined activity of pension, mutual and hedge funds. In the second half of 2020, Goldman Sachs calculated that the already frenetic retail trading levels went up 60% in China, where retail investors make up the vast majority of stock market activity.

In the UK at least some of this new retail involvement was attributed to those approaching retirement wanting to manage their own portfolios. But by far the biggest impetus in new trading activity domestically and across the world was from younger age brackets. AJ Bell reported a third of its new customers to be under 30. The average age of Hargreaves Lansdown customer has gone down from 54 less than ten years ago to 37 today. Low or no-fee platforms have been particularly popular for new entrants, with 80% of those joining UK brokerage FreeTrade this year aged under 30.

New investors in the West have been more ethnically diverse than before and there has been a proportionately larger increase in women. On eToro's platform last year, for example, women's accounts went up 366% compared to a 248% increase for men. Once again this is a worldwide phenomenon, with India's Sharekhan platform recording a 77% increase in women's trading accounts at the beginning of 2021.

With so many first-time investors joining the fray, are we witnessing a welcome uplift in financial self-determination and new liquidity prelude to a general overheating?

Wisdom of Crowds

At the market's lowest point in 2020, UK high street bank shares were not alone in trading at half their start-of-year price. With more freedom of movement – and optimism – than major asset managers, retail investors saw this as a once-in-a-generation chance to load up on blue chips.

Noticeably smaller trades were being made on UK and US platforms, indicating participation from more modest economic sectors. This cohort was encouraged by low or zero dealing charges on some sites and the ability to buy in fractions like a sixtieth of an Amazon share.

Meaningful alternative investments for lockdown's accidental savers were anyway hard to find. Residential property did not experience a slump as many had predicted and savings rates flatlined or in some countries went negative.

Going into the stock market made relative sense bearing in mind the long term returns associated with the markets such as a 10-year average annualised return of over 13% on the S&P 500.

Rise of the Masses

New money is often treated a little frostily. Some commentators wondered whether the markets were a substitute for the closed casinos and Berkshire Hathaway's vice chairman compared some of the investors to "racetrack betters".

There was also a hint of denial at the change taking place. The CIO of the Indian equity research house Quantum Advisors declared,

As has happened in the past, retail investors burn their hands with direct stock picking and eventually settle for professionally managed funds. So this increase in new retail participation bodes well for portfolio managers and asset management companies."

Hertz exemplified the culture clash and underestimation of the newcomers. The company filed for bankruptcy protection and traded at one dollar a share in May 2020. Investment professionals poured scorn on the buyers who then piled into the stock – as many as 96,000 in one week of June 2020 alone on Robinhood.

Retail has a lot to do with it and I don't think you've seen institutional investors buying those kinds of stocks," Christopher Grisanti, chief equity strategist at MAI Capital Management told Bloomberg. *"It's too much risk. I would call it catching a falling knife."* One year later, Hertz benefitted from a rescue bid and was trading at around $6 a share.

Other retail-led picks raised eyebrows even beyond the finance world. An online Reddit forum, encouraged by tweets from Tesla's Elon Musk, orchestrated a mass buying of shares in gaming retailer GameStop, seemingly motivated by the idea of thwarting hedge fund money which was shorting the same stock. At its peak the share was selling at more than one hundred times last year's price and Robinhood suspended trading.

Other "financial flash mob" buying took cinema chain AMC from $2 to over $60, forcing the company to file a bizarre report to the SEC stating that the market trading had become "unrelated to our underlying business" and cautioning prospective purchasers of its own shares. Some established financiers first muttered about meme stocks and dumb money but then followed social media trends more carefully and then to tried to get their own favoured shares to be the subject of memes.

IPOs for the Many

The weight of retail investors' money coming onto the market is inevitably forcing questions about whether they should be better included in IPOs. This is important because of the potential for the first day "pop" or price spike which in the US has averaged 18.4% in the past 20 years and twice that in 2020. It is also timely because of the competition from SPACs (see last quarter's article) which allow retail participation on an equal footing with major finance houses.

In an open letter to the City Minister this year, the CEOs of AJ Bell, Hargreaves Lansdown and Interactive Investor jointly argued that;

For too long, UK listings have been the preserve of financial institutions" and pointed out that retail investors had access to only 7% of London's main market and AIM IPOs in the previous three years. *"That needs to change. Retail investors should have as much right as any other institution to invest at IPO, rather than having to 'get in line' and potentially buy the shares at a premium in the open market, post IPO. The UK taxpayer stands behind UK plc and should have unfettered opportunity."*

When considering the letter, UK ministers and exchange regulators will be wary of appearing to fall behind other markets such as China, where retail investors already enjoy majority participation (albeit through a lottery system for often vastly over-subscribed offerings which give them a 0.05% chance of an allocation). US retail investors have until now only been able to tap into IPOs with a minimum of $100,000 but Robinhood is not alone in pioneering ways for its customers to participate in listings on day one, in their case by partnering with investment banks.

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Given the regulatory requirements still in place in the US that limits retail investors to participate in traditional IPOs, many retail investors are heavily participating in direct listings and pre-de-SPAC shares or warrant purchases. These two going public transactions have opened the doors to many retail investors, allowing them to be on the same playing field as VC and institutional investors in some capacity. This could explain why the SPAC market has and continues to be so active and successful in the US market and why some companies look to direct list their shares especially when these companies generate most of their revenues directly to a large consumer base.”

Caitlyn Van Valin, Vice President, Capital Markets, EQ US

The lurking fear for regulators is that retail investors do not avail themselves of, receive or understand the necessary data to make informed decisions on potentially volatile IPOs. Worryingly, a University of Chicago study on new entrants to the market found that they were statistically just as likely to ask friends and family for their thoughts on a share as they were to consult the company’s website. On the other hand the pandemic showed that any and all communications can be managed very effectively when necessary and that investor roadshows in particular can easily be put online.

No End of Them

Institutional or individual investment patterns have ebbed and flowed over the decades and the recent swell of retail should be viewed in a historical context. Pension funds only began to dominate the markets when they grew their asset base from the mid-twentieth century onwards. According to research by Schroders, over half of UK shares were owned by individuals even up to the mid-sixties, albeit from a narrower section of society than today.

Some of the entrenched financial establishment view the many of the debutants as flash mobs in the pan who will return to other hobbies when pandemic restrictions fully lift or who, like the dotcommers before them, will be swept away when the tide turns. But the University of Chicago study revealed that, at 17%, the number one motivation for new entrants was not to stick it to a hedge fund but to save for retirement, indicating that they weren’t going anywhere fast. Eric Liu of Vanda Research likewise argues that greater retail participation “is here to stay. The investing world is like any other industry and has been opened up by technology.”

Crowd Pleasing

No doubt some of the new investors have been day-trippers or along for a social media-encouraged ride. But many more will stay invested and - being predominantly younger - stick around longer than existing shareholders. So far their voice has not much been heard in boardrooms because they are recent arrivals and because only an average 30% of retail investors vote at AGMs compared to institutional money’s 90%. That will change with time, which is on the new retail investors’ side. Companies looking to enjoy the best shareholder relations will need to understand their new owners, use their preferred means of communication, tune into their social media and begin to align company objectives to their agenda.

Starting your IPO journey

EQ has many years' experience bringing companies to market, from preparation to launch and on to life post-IPO. Our unbeatable service has supported the technical and logistical elements of the highest-profile listings in the UK, and we can do the same for you.

Find out more