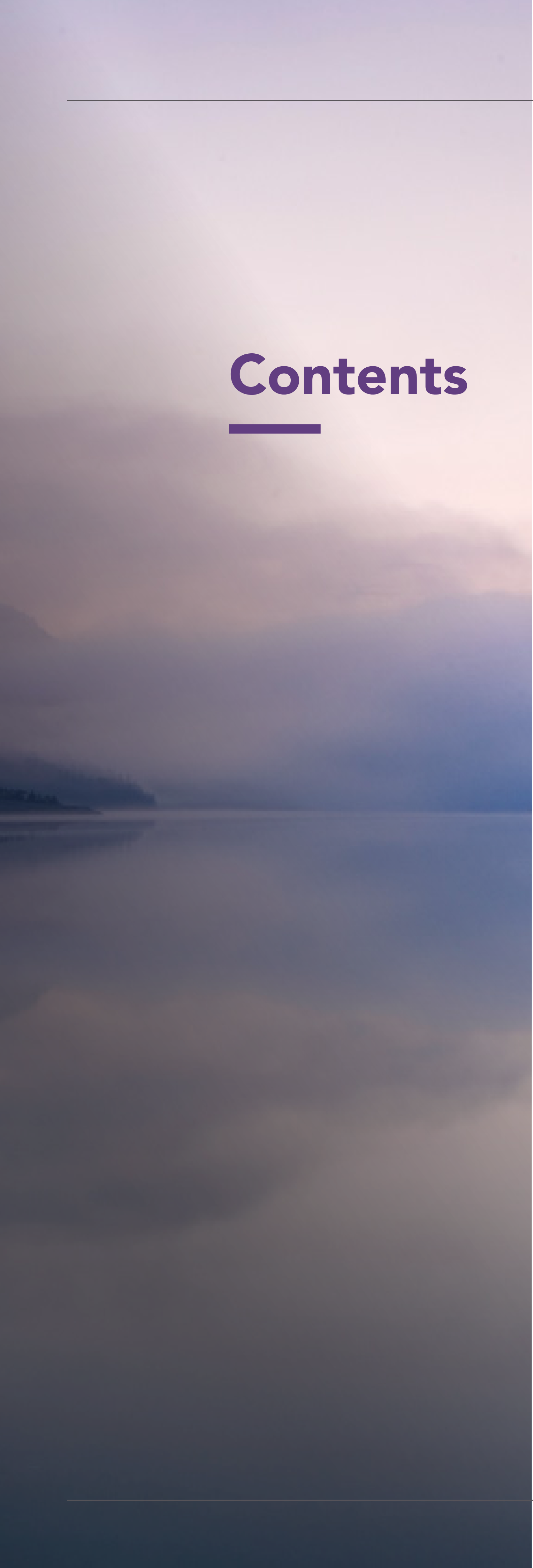
The IPO Q1 Update

EQ Boardroom, Equiniti

EQUINITI



Contents

Executive Summary

The contraction in UK IPO activity that began in the second half of 2018 has continued into the first quarter of 2019. Established overseas exchanges also appeared quieter, leaving emerging markets to make the running, although the first of a new batch of unicorns went public in New York. This will go some way to raising industry spirits, but in our Q1 article we take a look at whether fundamental issues are affecting IPOs globally or whether London's downturn is a purely Brexit-related phenomenon.

UK IPO Market Q1 Round Up

Excepting an institutional investor-only fund, there were five UK-owned or UK trading IPOs to March 2019, raising around £120m. This low number, together with the nine cancellations bears testimony to the grip of the prevailing mood of wait-and-see, especially comparing to Q1 2018's sixteen London IPOs raising £900m.

Legal firm **DWF** the largest company float of Q1, achieved a market capitalisation of £366m with around 12.5% of equity going to employees directly or via a benefit trust. The 42-year-old practice already operates in 14 international jurisdictions but will use the listing to widen its global reach.

DWF believes technology has been the cornerstone of its service offering, and £10m of the float proceeds will go back into IT. This will allow the firm to strengthen the data analytics and managed services solutions it can provide directly to clients.

Schiehallion Fund joined the main market, and raised £363m upon admission, with a market capitalisation of £420 million. The fund will provide Baillie Gifford's existing institutional clients with exposure to later stage private businesses.

Ferro-Alloy Resources jointly listed on LSE and Kazakhstan's markets in an IPO that gave it a capitalisation of £219m. The £5m of new money raised will allow further mining of vanadium - used to strengthen steel - which has risen 450% in three years.

SaaS company **Dev Clever** proved that the cloud can float after raising £700k of new money in a listing giving it a market cap of over £6m. Among other services, the business facilitates consumer incentives by linking brands with voucher and epos systems. In defiance of the behaviour expected of an IT start-up, the business has been consistently profitable since its 2013 incorporation.

The Staffordshire-based enterprise has historically been crowdfunded, but CEO Christopher Jeffries wanted to be on a more even footing with his major brand clients. With the firmer capital base Dev Clever is now looking to scale up significantly and expand geographically.

The Silk Road weaved its way to London with **Starcrest Education's** £1.1m raise. The Chinese government's much-touted Silk Road Economic Belt (AKA One Belt One Road) initiative is a push to develop international infrastructure and investment networks. There is also a cultural dimension to President Xi's multi-billion-dollar brainchild, in which Starcrest – with a healthy opening mcap for a start-up of £4.4m – will now play its part.

The money will be used to acquire a Europe-wide platform of businesses, ultimately selling education services back into China. A primary focus will be to feed the still-growing demand among Chinese middle classes for British education. The University of Northampton is expected to be among the first UK partners.

Northern Ireland's **Diaceutics** services the growing precision medicine sector, analysing insurance and health records to allow more targeted treatments. It raised £17m on AIM in March.

BACK TO CONTENTS

Overseas Exchanges

Lyft picked up an otherwise relatively quiet **New York** with its $2.3bn raise, valuing the loss-maker at over $24bn. The rideshare unicorn mapped a quicker route to market than its arch-rival **Uber**, which has been rather distracted by reputational and regulatory issues, but which will nonetheless tailgate Lyft with an April listing.

Big pharma **Gossamer Bio** engineered a $317m NASDAQ injection. Investors forgave disappointment with its latest asthma drug, losses and high cash burn and looked instead to its stable of drugs in clinical trials.

Levi Strauss added some zip to NYSE with its $623m raise, valuing it at $8.9bn. The 166-year-old has been modelling increasingly attractive bottom lines, with last-filed quarterly profits up 45% YOY. Any retro look may be because Levi's first went public in 1971 only to be taken private again in 1984. By retaining B shares with superior voting rights, however, descendants of the jeans inventor still look to wear the trousers.

One of the biggest planned IPOs of the quarter didn't turn up on investment platforms. **Virgin Trains USA** signally failed to on-board public interest for its $510m raise and will instead turn to private equity.

Shanghai and **Shenzhen** are busying themselves with arranging at least 14 bank IPOs this year as part of the government's drive to strengthen their capital base. The most eye-catching of the Q1 cohort was **Bank of Xi'an**'s $300m raise. The bank's history is to some extent a microcosm of China's recent history of capitalism: **Bank of Xi'an** began as a medley of municipal credit co-operatives in 1997, opened itself up to foreign involvement with Scotiabank's minority shareholding in 2002 and by some estimates has since seen an eight-fold increase in authorised capital over its commercial lifespan.

The Hang Seng had its poorest trading start for 25 years but, nothing daunted, 36 firms have launched their IPOs on **Hong Kong**'s main market this quarter, with new economy and pre-revenue companies prominent. The largest capital raise was by pre-profit biotech **CStone** at $285m, albeit on a scaled-back listing.

Coke is good, decided investors in **China Risun**, the world's largest coking chemical producer. The company's $200m raise garnered the second highest amount of new money of the quarter, although at the low of its pricing range, reflecting a more measured mood on the HK exchange.

Emerging markets have tempted investors in recent months, but **Turkey** served a reminder of their potential volatility. Government currency protectionist intervention shored up the lira in the short term but effectively forced traders to liquidate assets including stocks to close off trades and the BIST 100 lost 10% in March.

BACK TO CONTENTS

That Listless Feeling

London Has Time on Its Hands for Soul Searching

In 2017 there were 104 IPOs on the LSE, recording the highest annual number of equity transactions since 2008. 2018 however saw that number drop to 79 IPOs and 2019 also looks likely to see a fall in numbers. While London continues to lead Europe in the IPO market with a 73% share, does this reflect a worldwide trend in equity market activity or is the UK stuck in the kitchen while everyone else is enjoying an IPO party?

Stock markets in general appear to be out of favour with both investors and businesses.

Since IPOs are ultimately driven by investor sentiment, BlackRock's survey of 230 global institutional clients representing $7 trillion of investments gave little comfort to immediate IPO prospects. It showed that 51% of clients were planning to reduce their exposure to equities in 2019. Similarly, Bank of America Merrill Lynch's February 2019 survey found equity allocation among fund managers to be at a 30-month low, with US money managers holding 44% in cash, the highest since the dark days of January 2009.

The picture is just as stark this side of the Atlantic. According to EPFR, European equity funds have shed an average of $10bn per month since October 2018.

If investors are starting to cool towards share markets, many businesses are ahead of them. The number of US public companies has halved since 1996. Globally, $240bn of capital has gone into taking companies from public to private (P2P) between 2013 and mid-2018 according to S&P (US, China and UK being the three most active P2P markets). Corporations are knocking on an open door when it comes to private equity. Bain's 2019 PE report points to record amounts of capital available to invest, with macro-economic headwinds merely concentrating investments into larger deals rather than reducing overall appetite.

BACK TO CONTENTS

Bonds traditionally also take up slack from equity markets. McKinsey calculates that since the banking crisis in 2007 corporate bonds globally have nearly tripled in dollar terms. This has created a decidedly issuer-friendly market. GlobalCapital Asia highlights major 2019 issues in Hong Kong, China and India (New World Development Co, China State Construction International and ReNew Power respectively) which either revived fixed-for-life terms or which did not build in traditional investor protection and recourse structures.

With interest rates low, bank debt is similarly proving attractive for businesses which might otherwise be tempted to list. BoE data for example showed lending to large companies increasing through the second half of 2018 just as IPO activity was falling away. By the end of the year, corporate bank borrowing was a significant 6% higher than December 2017.

With equity markets around the world in a lull, perhaps London shouldn't take the scarcity of IPOs personally.

Yes As Robin Stevens, Senior Advisor at Crowe points out, "There are certainly fewer equity plays out there, but for different reasons." Each market, he explains, has its own IPO challenges. He gives the examples of Hong Kong, the stellar performer of 2018, which has cancelled 17 listings so far this year citing regulatory reasons and concerns over scalability, while smaller Asian markets like Singapore and KL have become noticeably more risk averse.

Stricter approval policies, world trade tension and what Goldman Sachs calls the "bumpy deceleration" have likewise chipped away at the Chinese IPO juggernaut. The US is also seeing listings decline, in no small part because of legislation. Since the mid-nineties rules have made it progressively easier for private companies to sell stock to qualified purchasers while increasing the administrative and cost burden of going - and remaining - public.

London has always been an outward-facing market and has comfortably more international assets under management than any other financial centre. Any global mood change in equity will necessarily be reflected – if not magnified – here, including the volume of IPOs on the main market and AIM.

BACK TO CONTENTS

… and no. Businesses are more comfortable going public when there is at least medium-term visibility on general risk parameters. Brexit-befuddled UK cannot presently offer this. Robin Stevens conveys a common question asked by businesses and their professional advisors considering a London listing: "Why raise in Sterling when you could lose 10% on currency?"

Other markets' challenges can and are being addressed: China is rolling up its sleeves and introducing stimulus measures through its banking system, streamlining the IPO approval process and offering a specialist platform for "new economy" businesses; Hong Kong is remaining choosier but casting its net further into ASEAN territories while in the US, Wall Street dealmaker Jay Clayton's appointment as SEC Chairman presages an easing of IPO regulations to reverse the decline in the number of public companies.

The UK, however, is struggling to overcome its own major challenge. Meanwhile, stocks since the referendum have delivered only two-thirds the total returns of its global peers according to the MSCI index and are being ostentatiously jettisoned by international fund managers.

Light at the end of the Eurotunnel? Optimistic UK market analysts are not causing any over-population concerns at the moment. Those willing to offer any views at all on the rest of 2019 have predicated them on an orderly Brexit.

However, even before this has been achieved, Schroders is not alone in seeking to establish a calmer perspective on London's present situation and its impact on the global economy. The Volatility Index (VIX – the higher the number the higher the volatility in equity markets) is at 13 during the parliamentary non-resolution of Brexit in March 2019, was 20 after the initial 2016 referendum decision but was 75 at the height of the financial crisis in October 2008.

Schroders' Personal Finance Director Claire Walsh goes on, "While Brexit is a cause for uncertainty… history has shown that people can still benefit from investing despite wars, disasters, economic strife and political instability".

This month, the Chancellor's Spring Statement appeared to show that the economy was trundling along with rather British nonchalance. Tax receipts – especially from the impressive employment levels – were robust and indicated fiscal targets could well be met going into 2020 and 2021. Also welcome was the CBI's December 2018 report highlighting growth in consumer spending, real wages, business investment and exports.

This underlying resilience would appear to provide a stable and welcoming environment for a bounce-back in IPOs when the political situation is resolved.

BACK TO CONTENTS

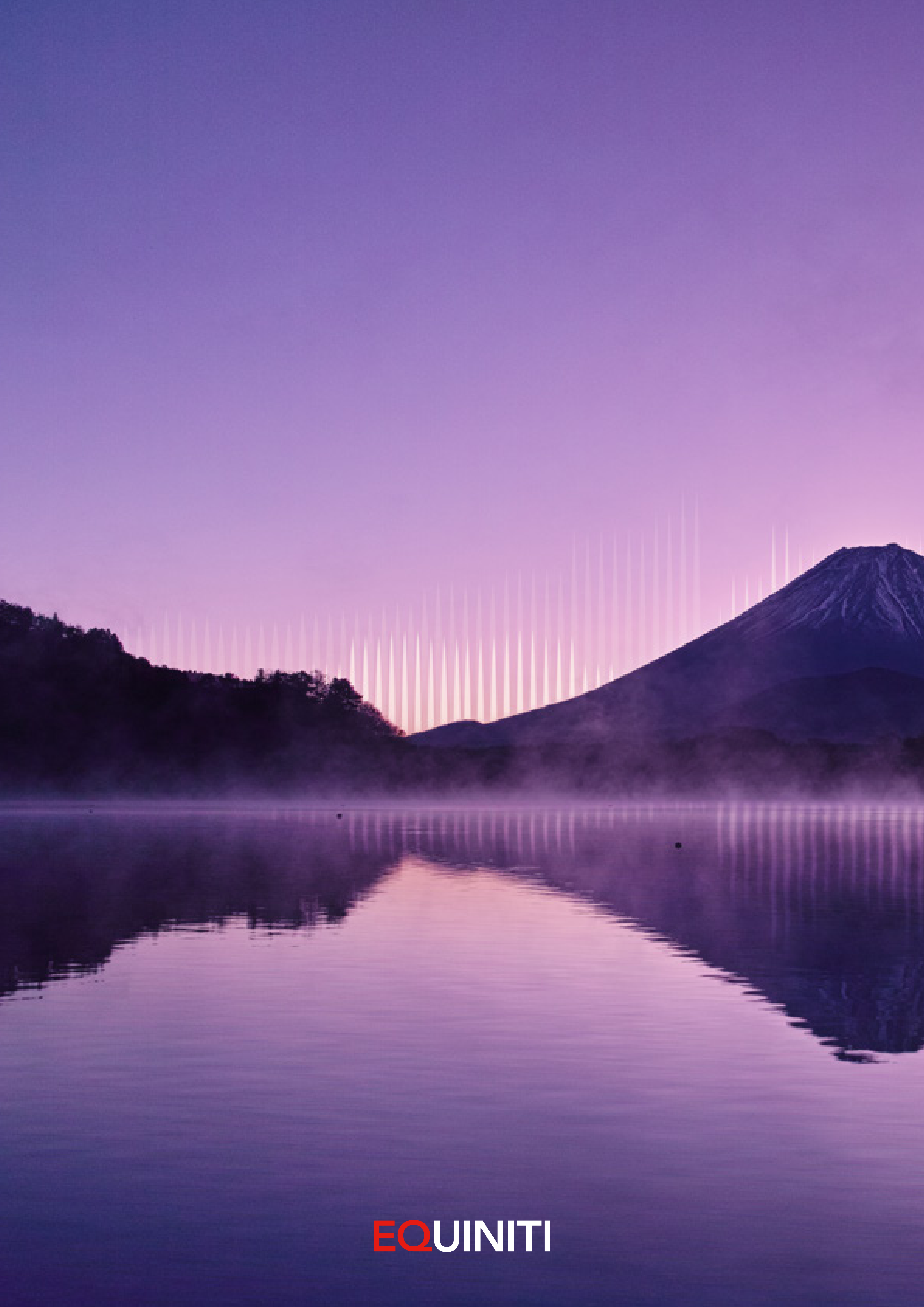
Disclaimer

The report does not constitute a comprehensive or accurate representation of past or future activities of any company or their shareholders. All data and descriptions of any company, business, markets or developments mentioned in this report, may be a combination of current, historic, complete, partial or estimated data. The report may include statements of opinion, estimates and projections with respect to the anticipated future. These may or may not prove to be correct.

This report is not, and should not be, construed as a recommendation or form of offer or invitation to subscribe for, underwrite or purchase securities in any company or any form of inducement to engage in an investment activity.

All information contained in this report has been sourced from publicly available information and has not been independently verified. Neither Equiniti nor any of its affiliates, partners or agents, make any representation or warranty, expressed or implied, in relation to the accuracy, reliability, merchantability, completeness or fitness for a particular purpose of the information contained in this report and expressly disclaim any and all liability.

BACK TO CONTENTS


EQUINITI