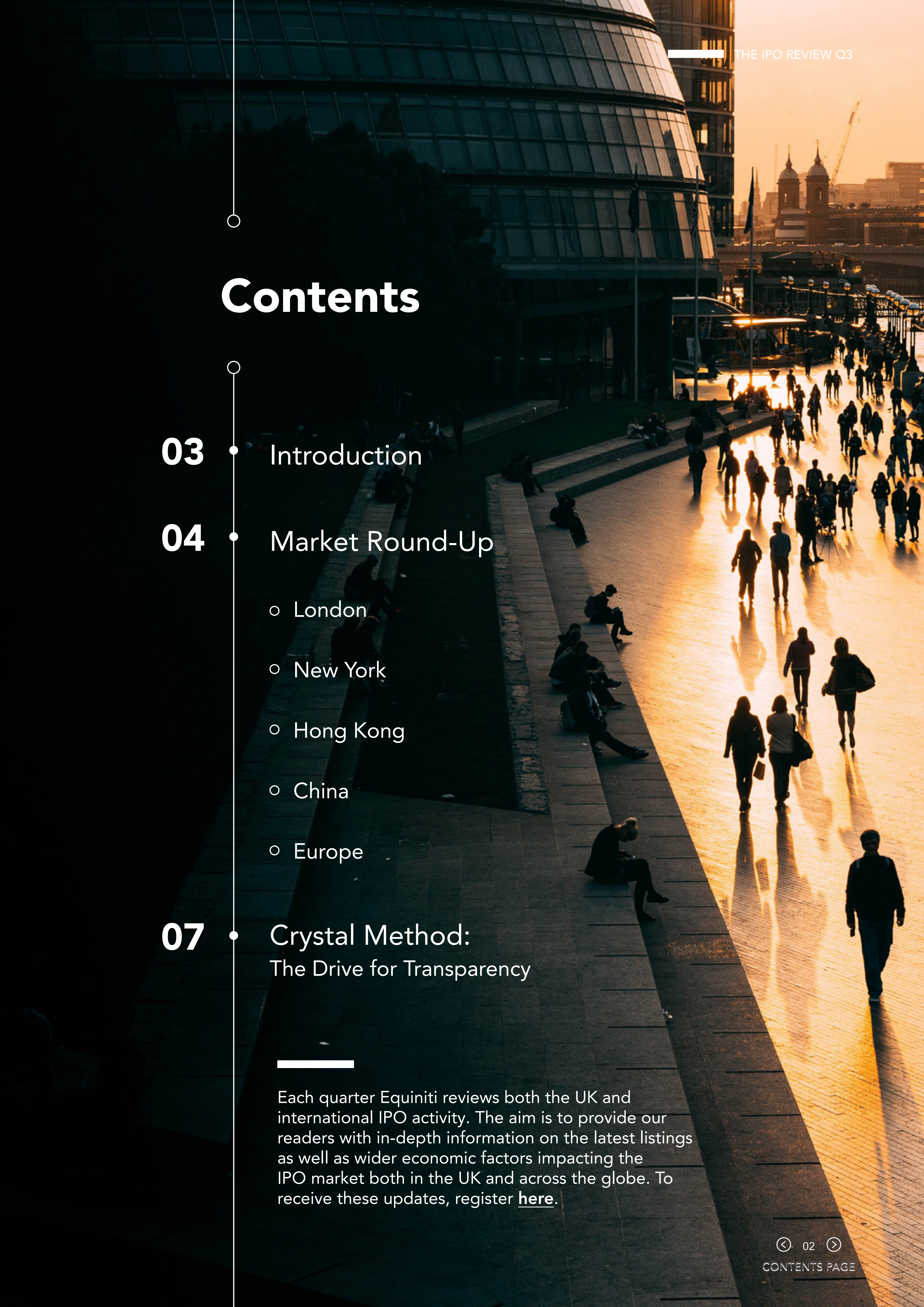
Q3

The IPO Review

EQUINITI



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Each quarter Equiniti reviews both the UK and international IPO activity. The aim is to provide our readers with in-depth information on the latest listings as well as wider economic factors impacting the IPO market both in the UK and across the globe. To receive these updates, register **here**.

Introduction

The third quarter IPO market has been calmer and more reflective after the excitement of Q2's unicorn stampede. Internationally, listings have been postponed as valuations have often failed to live up to companies' expectations and investors await resolution to the US-China trade tariff dispute and Brexit. Exchanges have meanwhile been busy positioning themselves for the pent-up IPO business.

Equiniti has helped many businesses to float and we are very aware of the opportunities but also the sometimes-radical changes required of public companies. In this quarter's review we look at the particular challenges of transparency: both as a regulatory and shareholder expectation but also as a transformative and beneficial cultural shift.

Market Round-Up

London

The London IPO market in Q3 has been generally subdued beneath the blanket of political fog, but with some welcome additions to the exchanges.

For the year so far, however, London has seen a 2.3% rise in IPO capital raised versus Q1-Q3 2018. In comparison, global IPO volumes have fallen 20%. London also continues to be the leading venue for cross-border IPOs and new listings, accounting for 35% (£3.7bn) of the global value so far this year.

Airtel Africa, the telecom subsidiary of Sunil Mittal's Bharti group with a 100 million customer base, raised £541m in a simultaneous London and Nigeria stock exchange float, giving a market cap of £2.7bn. The funds will be used to dial down debt.

Uniphar achieved its target €141m raise with a dual listing in its native Dublin and on AIM. With a market cap of just under €300m, Uniphar has already used part of the proceeds to acquire transatlantic pharmaceutical supplier Durbin.

Brickability achieved a valuation of £154m in its £57m AIM listing. Building on a successful MBO in 2016 the company counts Redrow and Berkeley Group among its customers for the annual output of 300 million bricks.

Four specialist investment vehicles entered the main market in Q3: **National World** raised £5m for news and digital marketing acquisitions; **Mustang Energy** £750k to participate in on-shore infrastructure projects; **BSF Enterprises** £770k for UK-China investments and **MetalNRG** £280k for mining opportunities.

Looking ahead, mega-IPO **Dangote Cement**, owned by Africa's richest man, Aliko Dangote, had been planning to list in Q3 but may now delay to 2020.

SDIC Power Holdings has had approval from both London and Beijing to list later this year on Stock Connect, electrifying the new joint scheme between Shanghai and the LSE. With an expected 10% of the government-owned energy company stock being floated as much as $1bn could be raised.

New York

Quarter 2 swarmed with unicorns and saw over $26bn in IPO executions, so Q3 was always likely to be an anti-climax. Indeed an especially sleepy August saw the quarter fall back to just over $11bn raised.

WeWork's high profile on-then-off IPO reflected a more critical investor approach to pre-profit companies 'see our Q2 2019 article on this topic **here**' and those listing in the near future will be expected to factor in investor sentiment and price more strategically. WeWork decision to pull back would have in part been prompted by **Peloton**, which raised $1.1bn on an $8bn valuation, but saw shares backpedalling in the first week of trading.

DouYu International was the biggest Chinese deal of the year in NY, seeing a valuation of $3.7bn. The video gamer had pressed the pause button on listing when Sino-US rhetoric was at its most heated in spring but the reset on NASDAQ triggered a raise of $775m.

Teeth-straighteners **SmileDirectClub** braced themselves for frowns by opening 10% below IPO pricing but still raised $1.35bn on a $10bn valuation. The company has grown by offering savings of around 60% on orthodontists by selling direct to the public, using a 3D image taken by the consumers.

Datadog, the cloud-based analytics software company, was punchily valued at over $10bn (over 40 times its annual revenue) in its $648m-raising IPO, but still surged 39% on launch.

The healthcare sector is increasingly dominating NY IPOs, providing half of the last twelve months' listings and six of the largest ten in September. This quarter saw **Change Healthcare**, which provides multiple platforms for both medical providers and end users in the US, raise $609m on its stock offering and a further $279m from tangible equity units.

Since the writing of this article WeWork have accepted a $9.5 billion rescue package from major investor SoftBank Group Corp.

Hong Kong

More than 200 companies – the highest profile of which is Alibaba - have delayed IPOs so far this year according to South China Morning Post and the number of filings and proceeds have halved on last year. Denial-of-service cyber-attacks and a technical glitch have harmed the reputation of the exchange this quarter and the street disturbances have led to a downgrade of the Fitch rating for Hong Kong as a whole.

AB InBev held back from a larger $9.8bn raise of its Asian division – which would have been HKEX's largest in a decade – after investors found the valuation too frothy. However, the company then went ahead with a lite version, raising $5bn on its Budweiser division.

Meanwhile Chinese bank IPOs continued to cut a dash on HKEX, with this quarter seeing among others **Jinshang** Bank, based in northern China, raise $420m.

China

IPO activity is still affected by tension with the US. Q3 has ended with indications that criteria may be tightened for Chinese companies looking to list in New York, especially smaller enterprises with limited shareholder bases: a move that must ultimately benefit Shanghai.

In fact, this quarter Shanghai launched its own version of Nasdaq: the STAR Market. The 25 tech firms were greeted rather enthusiastically by four million qualified retail investors, with the lowest first-day gain being 84% and the highest 520%. This average gain of 217% had by mid-September reduced to 139% after off-loading by fund managers but has still been hailed as an important step in the further integration of China into global markets.

Europe

Private equity firm **EQT** valued at over £5bn in its £490m raise on Nasdaq Stockholm. The PE began in the mid-90s and now has £35bn AUM, making it one of Europe's largest and oldest.

Software company **TeamViewer** has been Frankfurt's biggest IPO of the year, raising €2.2bn on a valuation of €5.2bn. The offering for the already-profitable online meeting specialist was immediately oversubscribed; an increasing rare chink of light in what has been a gloomy IPO market on the continent.

The low sentiment was exemplified by **Global Fashion Group**'s struggles in Frankfurt, slashing its price from €6 - €8 to €4.5 and even then being largely bought by existing shareholders.

More cheer is expected in Q4 with glass maker **Verallia** – valued at up to €4bn - likely to be France's biggest IPO of 2019, to be joined on the Bourse by state lottery **Francaise des Jeux**.

Crystal Method:

The Drive for Transparency

After Seeing through a Listing, Markets Want to See through the Listed Company

2019 has demonstrated that there is still ample demand for successful, growing companies to go public. The stampede of US, Chinese and European unicorns onto the exchanges has enlivened the markets and sent a buzz through the investor community. Those who have already gone through a listing, however, are quick to describe the actual IPO as no more than a milestone; a first step in a long journey or even a high school graduation. The hard work of adapting comes afterwards. One of the most challenging changes in operations and mindset is the requirement for greater transparency.

Who Needs Transparency?

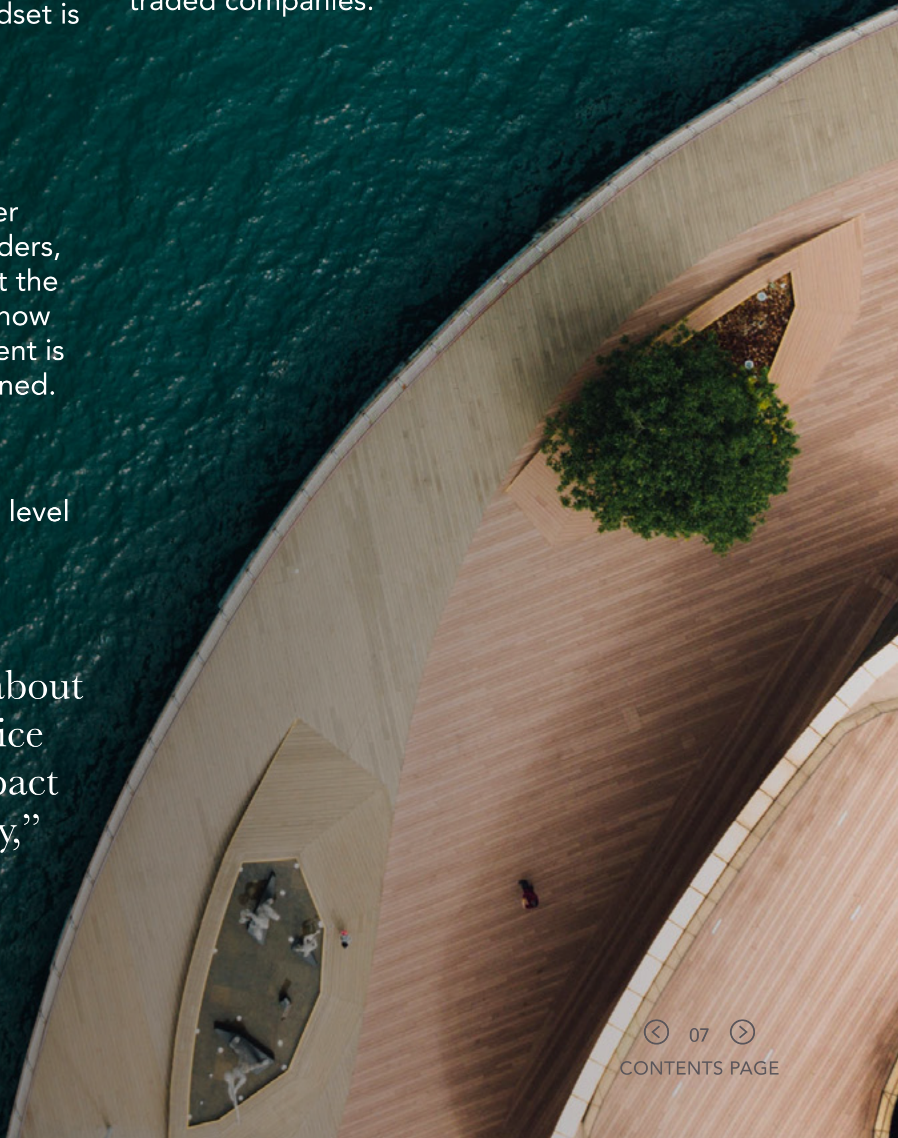
Shareholders for a start. Taking on a broader capital base is excellent for rewarding founders, growing the business and spreading risk. At the same time, the new stakeholders want to know about the risks involved, how their investment is being spent and how it is going to be returned.

In the communication age, and with an increasingly sophisticated shareholder community, expectations are high as to the level and quality of information.

> “
> Companies that are transparent about risk…tend to attract a share price premium that has a positive impact on the company’s cost of equity,”
>
> Notes Pru Bennett of BlackRock Investment Stewardship.

Conversely, poor communication is punished swiftly. For example shares in Apple went in the direction predicted by Newton after little detail was provided about the pricing of its new media products launched in March. Shareholders last year sued major Australian retailer Myer when it opted not to produce quarterly accounts for the first time and it’s shares were then suspended when figures were instead messily leaked to the financial press.

Information to stakeholders can take different forms and not just those favoured by oversight bodies. In 2014 Transparency International produced a report on corporate reporting standards at the world’s top 124 publicly traded companies.



Amazon and Berkshire Hathaway appeared in the bottom ten percent, although their longstanding investors appear generally content. The CEOs of both companies write open annual letters to shareholders and Warren Buffett's forty-one books would seem to show he is not exactly secretive about his investment philosophy.

Regulators also care. Communication is a cornerstone of transparency and in a public company it is no longer sufficient to have good divisional reports to the board and a decent intranet for staff. In the UK, the frequency and format of disclosures and auditing standards are laid down by the EU's Transparency Directive and overseen by the FCA and LSE.

Standards are gradually harmonising internationally, and so most overseas oversight bodies react no less sternly. This could recently be seen in the US, where Elon Musk was very publicly taken to task by the SEC for tweeting too early about privatisation plans for Tesla.

Too Much of a Good Thing?

On the face of it, enforced transparency should bring a general economic benefit. As Linklaters noted in its 2015 report on the shifting regulatory landscape,

> "A number of organisations… note that regulatory regimes are becoming a key tool for some governments to attract foreign investment, for example by increasing the perceived transparency of the national business environment"

On a micro level, transparency should also allow more – and more informed – retail participation by clearly conveying the workings of businesses to new shareholder cohorts.

There is, however, a balancing act between governance and ease of operations. The demands that transparency imposes on listed companies are held by some to be the regulatory straw on the camel's back. The number of listed companies in both the US and the UK has approximately halved in the 20 years to 2016. The value of those companies has not done the same, indicating that the responsibilities of being a public company are more comfortably managed by larger entities. President Trump appears to be of this opinion and has asked the SEC to explore the relaxation of reporting requirements for public companies in recognition of the trend towards companies staying private longer.

The listed companies themselves are not the only parties affected by the requirement for greater transparency. Employees often need personally to embrace a radical change in their working and reporting patterns. A 2017 McKinsey article noted that transparency can lead to information overload which can in turn "legitimize endless debate and second-guessing of senior executive decisions… an 'accountability gap' where information is in the hands of people who may not use it wisely".

Openness about public company payrolls is often cited as an example of how transparency can be a double-edged sword. The McKinsey article goes on to state that "the open sharing of information on individual performance and pay levels, often invoked as a way of promoting trust and collective responsibility, can backfire".

Does transparency change anything?

Transparency gives stakeholders greater insight into a public company. But if that insight cannot then translate into the ability to change matters then its usefulness would appear limited.

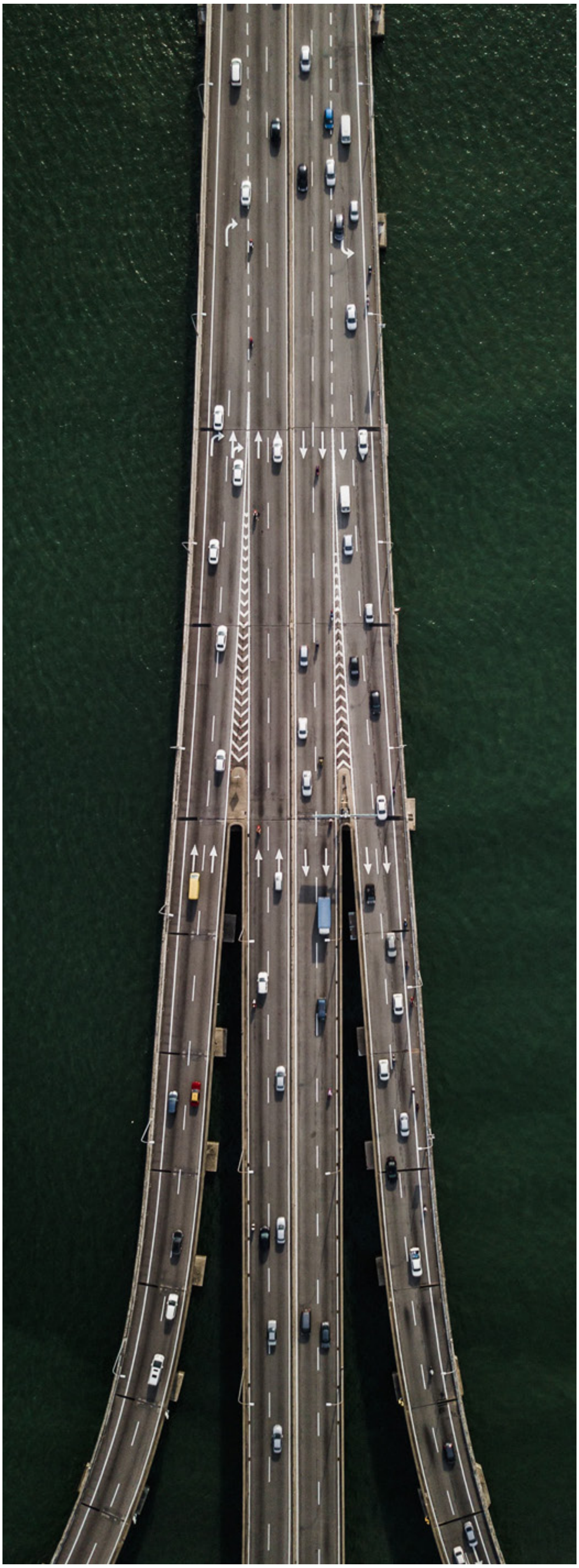
The extent to which shareholders are allowed to intervene has been a bone of contention between legislators and boards. As shareholders are granted more transparency, there has been an equal and opposite reaction to limit their influence, especially in the wake of dramatic and deliberately disruptive shareholder activism.

Compliance research firm Intelligize found 30% of unicorns going public in 2018 operated a dual class share system and all but one of the twenty had staggered boards; both seen as methods of retaining founder control and disapproved of by FTSE Russell and S&P Dow Jones.

Transparency laws requiring UK listed companies with more than 250 employees to set out the pay ratio between the CEO and the rank and file came into effect this year. The outcome is therefore not yet knowable, but INSEAD analysis of earlier, similar regulation may be instructive. Denmark introduced gender pay gap reporting legislation in 2006 and has found that the gap in favour of men has since narrowed 7%.

ESG reporting regulation, however, provides an interesting example of where transparency has more clearly brought about change. In 38 out of the top 50 developed economies, listed companies are either mandated to publish their ESG / CSR policies or now operate within government-led disclosure guidelines. Shareholders themselves now also demand better insight into their investments' environmental, social and governance standards. As the London Stock Exchange's own 2018 report identified,

> "ESG-related information has moved from a 'peripheral' to a 'core' part of investment analysis, across all asset classes"



This could lead on the one hand to nothing more than better-crafted commentaries or on the other to materially improved corporate social responsibility. A 2016 London School of Economics report on the effect of mandatory ESG reporting (on Bombay Stock Exchange-traded companies, but with no reason to suppose other markets would be different) in fact found significantly improved behaviours and outcomes.

This in turn seems to translate into stronger financial performance. The Boston Consulting Group found that of 300 top pharmaceutical companies, those with better ESG credentials enjoyed an average 8% higher ebitda. It certainly leads to higher customer buy-in (and less drop-out). Accenture's 2018 survey of 30,000 consumers in 35 countries found that 42% of customers abandon a brand that doesn't meet their ESG expectations and 21% never return.

Openness (in Closing)

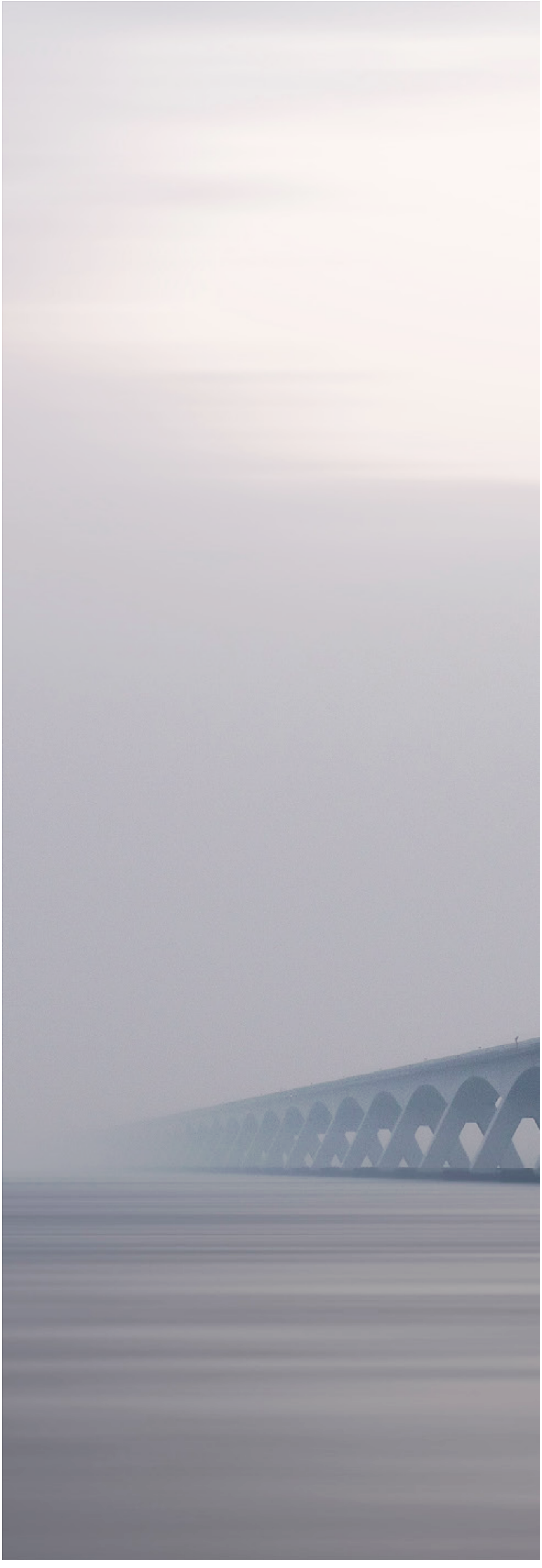
More than ever before, listed companies are subject to greater scrutiny. Regulations of transparency have not yet been set in stone globally and some boards are keen to ensure that shareholder knowledge doesn't equal shareholder power. What is clear, however, is that public companies that embrace transparency, communicate well and interact openly with investors and consumers tend to benefit from improved stock market valuations, greater profitability, superior ESG outcomes and better customer retention.

Starting your own IPO journey

Equiniti 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.

To find out more, contact our team at **equinitiboardroom@equiniti.com**



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