EQ

THE IPO REVIEW Q1 2020

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Each quarter, Equiniti 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.

To receive these updates, register **here**.

Modern, industrialised society regularly congratulates itself on having triumphed over nature, but COVID-19 has brutally exposed this as wishful thinking. Reacting to the effective shut-down of the world's major economies, markets globally lost £16 trillion in the four weeks to mid-March – the value built since the crash of 2008.

There were calls to close the exchanges, as was seen after 9/11. However, Euronext's CEO, Stephane Boujnah was among many to point out that they were still operating efficiently, further adding that, even in times of crisis, "It's extremely important to provide a home for liquidity and price formation".

Although IPO activity dropped off rapidly as the quarter progressed this quarter's review shows that those companies determined to push ahead with their listings still found a mostly receptive market. Not daunted by seeing their professionals and potential shareholders "locked down", companies – most notably in Asia – responded innovatively by moving roadshows and investor meetings online to great effect.

Looking after employees at this time has been a top priority for government and businesses alike. In this quarter's article, we examine how staff share schemes can motivate and reward a loyal workforce when going public and the pitfalls to avoid.

Market Roundup

London

In the largest IPO since Trainline last June, KKR-backed smart meter makers Calisen got the measure of the market with a £300m raise and a valuation of £1.3bn.

Calisen valuation of

£1.3bn

largest IPO since 2019

Latest issuer to receive the Green Economy Mark, recognising listed companies and funds deriving 50% or more of their income from the green economy.

The first investment fund to list this year was **Nippon Active Value**, garnering £103m. In a sign of the ESG-focused times, the IPO was delayed until the fund signed up to the UN's Principles for Responsible Investment.

Supply@Me, valuing at £278m, raised £2.2m on the main market. The Italian fintech allows companies to by-pass banks when raising funds against their stock. Corporate restructurers **FRP Advisory Group**, achieving a market cap of £195m, raised £20m on AIM to expand their footprint.

The miners **Panther Metals** and gastropublicans **Barkby** graduated from NEX to AIM to raise £820,000 and £5m respectively.

New York

GFL Environmental, the Canadian firm, raised $1.4bn and valued at over $6bn on debut. The IPO was brought forward to 2nd March to meet the slight recovery after the first week of stock selloffs.

Bed-in-a-box company **Casper Sleep Inc.** has been pushing the "sleep economy" and its "wellness" credentials with a $468m market capitalisation at debut.

This quarter's listings represented life science companies well. Among them, **Beam Therapeutics**, only established in 2017, raised $180m after increasing shares to meet investor demand. The company offers more precise DNA editing in the fight against congenital conditions.

Fast-growing Chinese firm **Phoenix Tree** (trading as Danke Apartments) raised $130m. The company leases over 400,000 apartments and then lets them out to individuals on a co-living basis.

Another Chinese firm, **Wimi Hologram Cloud**, seemed to offer hope to investors despondent about the real world with its "augmented reality" services. The holographic advertising and entertainment company raised $26m on NASDAQ and is part of a virtual reality industry in China, expecting to grow more than one-hundred-fold in the next five years to over $50bn.

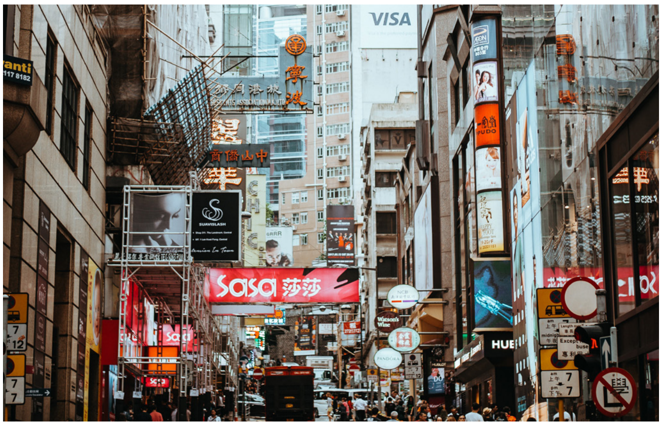
Hong Kong

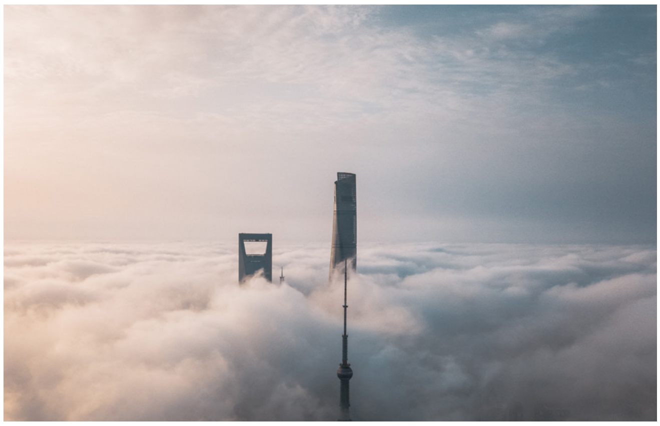
Hong Kong's Securities and Futures Commission handed out record penalties for IPO irregularities last year. Sponsoring banks were the primary focus of the regulator's displeasure and were fined $170m for failures in due diligence. Despite tighter scrutiny and its neighbour's particular viral woes, IPO activity for the first two months of the quarter was only 16% down on 2019, albeit including companies that now seem part of a bygone era.

In the largest HKEx raise of the year so far, pickled fish restaurant **Jiumaojiu** raised $326m to expand. In another example of better timing for founders than investors, mobile travel guide platform **Lvji Technology** raised $96m and has since seen its stock fall below half its listing price.

Since the spread of the coronavirus, pharmaceutical stocks have reported greater investor interest. Against a $1bn valuation, Beijing-based **InnoCare** raised $289m raise to pitch its cancer treatment.

Values Cultural Investment produces some of China's most popular television dramas and was enthusiastically snapped up by retail investors in its $11m raise. The record 1,200 times oversubscription was, however, almost immediately beaten by property company **Xingye Wulian** at 1,400x after switching its pre-IPO roadshows to the internet and building up a successful investor following.





Shanghai

Chinese stockbrokers reported a surge of trading activity as the locked-down population turned its attention to share portfolios and relieving boredom with new investments. The exchange topped the global league in the first quarter with $7.3bn of funds raised against New York's $5.1bn.

Beijing-Shanghai High-Speed Railway Co raised $4.5bn on the Shanghai exchange in one of the biggest Chinese IPOs of the last ten years. The 800-mile link is the country's most profitable railway and was priced at over 23 times earnings.

On the Nasdaq-styled STAR market, circuit board maker **China Resources Microelectronics**, valued at $7bn, raised $614m. By the close of the first day's business, it was trading at more than double the debut price. CR Micro was the first STAR listing of the so-called "red chips", the effectively government-owned and run technology companies. It was joined on STAR by **Amehtystum Storage Technology**, which uses optical technology (of which one example is Blu-ray) to meet the storage requirements of big data. Achieving a market cap of $2bn on its debut, the company claimed its share offering was over 3,000 times over-subscribed.

Europe

In its European IPO Report 2020, The European Commission has recognised that listings on the continent have been falling. In the 10 years from 2008 to 2018, the annual average was 220 compared to 380 over the preceding decade. A review of legislation, taxation and the provision of technical support is to be aimed at reversing the decline, particularly at the growth end of the market.

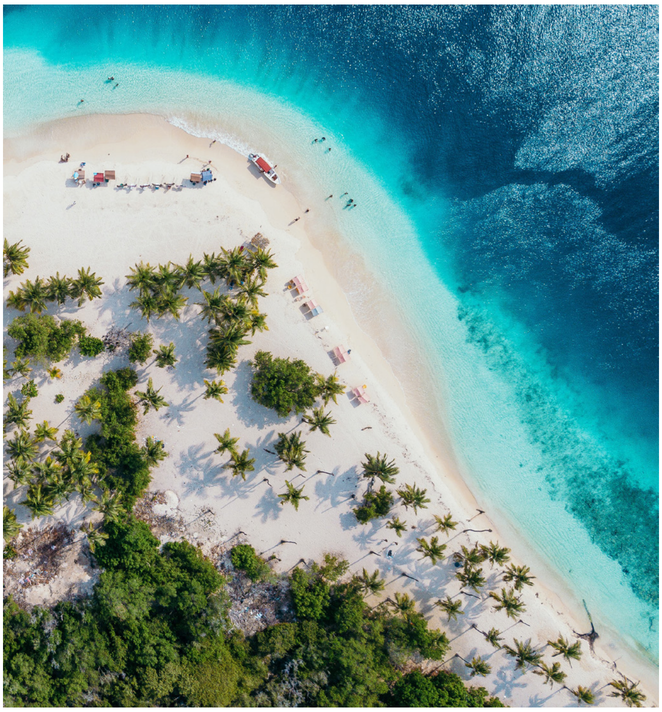
Zwipe used its first-mover advantage in the field of battery-free biometric payment cards to raise £8.7m on Oslo's alternative Merkur Market. Transport manager **Train Alliance** achieved a £40m valuation on Nasdaq First North.

Continent listings

380 to

202

10 years of falling



Caracas

Venezuela re-joined the global IPO community after an absence of 11 years. Rum maker **Santa Maria** listed as part of an effort to raise $3m. The Caracas exchange was rendered effectively redundant after Hugo Chavez's nationalisation programme. However, some industrialists are comparing the recent economic liberalisation policies to those that led to China's successful return to capitalism.

All Aboard – Giving Employees a Stake in a Listing Company

Employee ownership of businesses became a major debating point in the last general election. The Labour Party manifesto proposed to transfer 10% of large companies' shareholding to their workforce. Irrespective of politics, firms getting ready to go public realise that turning their employees into shareholders can - literally - get staff to buy into the IPO journey.

Aligning Interests

IPOs energise companies and can propel them along a higher corporate trajectory. But they are also potentially unsettling to employees. The period leading up to a listing is likely to be pressured, and the corporate culture will likely undergo a rapid evolution if not revolution. With so much management attention during this phase necessarily turned to the listing, executive and workforce stability is vital.

Giving employees a stake in the process through share options or entitlements is a popular way to align owners' interests with those of management and staff, as well as to reward the inevitable hard work that goes into every successful IPO.

Strategic Approach

When determining whether to offer a share scheme during or shortly after the IPO, a company needs to decide on the core objective of the plan and how it will fit alongside the business' culture and longer-term strategy.

It is essential that expert advice is sought at the very outset and that companies consider:

Regulation and governance – In our previous edition, we explored the need for investor transparency.

Share plans also require disclosure. The company needs to provide information on what the policy is, implementation and rationale for the decisions made.

It is worth bearing this in mind when looking into executive and discretionary share awards. Companies will also need to prepare for significant scrutiny over executive remuneration, especially as they'll need to secure shareholder approval every three years following their IPO. The company will need to include details in the prospectus should they wish to grant any plans immediately after admission.

Finally, tax efficiency is crucial. Plans can provide valuable tax and National Insurance Contribution (NIC) benefits to employees along with a corporation tax deduction for costs. Companies should seek advice on what plans may bring the most financial benefit to them and their employees.

Affordability and accessibility – A company will need to have deep insight into their employees before setting out the requirements of the employee plan.

Employee plans need to be created with the nature of the workforce in mind. Affordability and accessibility for lower-paid and part-time employees should be borne in mind as well as fitting in with, or at least not prejudicing, any existing employee plan.

A thoroughly thought out communication plan is vital in setting out the risks as well as the potential rewards transparently and fairly. It will also have a significant impact on a company's take-up.

Cost and operational effectiveness - Cost-effectiveness and ease of operation post-IPO and the resourcing available for managing a scheme should be assessed beforehand, as this will inform the potential scale and complexity.

Companies that grow rapidly and may expand cross-border, or those undertaking more complex capital structure rearrangements, could run into issues that were not initially considered in the plan documentation. These can range from a purely technical change such as a share swap inadvertently triggering local tax issues for employees, the methodology for calculating the relevant exchange rate or valuation, to how to adjust fairly for dilutive events such as special dividends and share splits.

Critical Choices

There are different types of share plans to match different corporate cultures, objectives and the various stages in a company's maturity. A business may find, as it approaches an IPO, that it has outgrown a scheme which was suitable when they were starting out or in cash-strapped, rapid growth mode. The profile and motivation of their employees will also have changed with time.

Sharesave

Sharesave plans are highly popular due to their low-risk nature, these plans can be issued in the UK and internationally. Employees contribute between £5 and £500 a month directly from their net salary over a fixed three- or five-year savings period, and can then choose whether or not to buy their company's shares at a pre-determined price (the option price).

Sharesave combines the potential for significant returns along with the security that participants won't lose money even if the share price falls over the savings term.

SIP (Share Incentive Plans)

SIPs are share-based plans and are also very popular for UK employees. While the scheme does carry some risk to participants if they are buying shares, there are valuable tax savings as well as NIC savings for both participants and employers.

There are three elements to SIPs:

- Free Shares (up to £3,600 per year per employee)
- Partnership Shares (employees can invest up to £1,800 from their gross salary per year)
- Matching Shares (linked to Partnership Shares, up to £3,600 of additional shares per year, per employee)

Global Share Purchase Plans

A Global share purchase plan works very much like a SIP but is not tax approved and can be run in most jurisdictions. It allows employees to purchase shares on a regular basis and receive matching shares in addition to their contribution.

Share Ownership as a Business Ethos

There is a strong trend towards greater inclusivity in corporate culture, of which share schemes play a significant part. France has already introduced mandatory profit sharing for companies with more than fifty employees, while the last UK government explored worker representation on boards.

Good staff morale backed by a positive corporate culture has never been more critical in the run-up to a listing. Share schemes make the IPO itself an inclusive, mutually beneficial and exciting experience. Post-IPO, share prices are naturally driven by outside investors' perception of a company's performance, and accordingly, an employee's wealth must, to some extent, reflect how hard they work. A well-conceived scheme acts as a compelling motivator to staff both during and after an IPO.

Equiniti is celebrating forty years of assisting companies with their employee share schemes. We remain as enthusiastic and innovative as ever and always welcome a conversation about establishing or refreshing a share plan for your business.

Graham Bull, Managing Director, All Employee Services at Equiniti comments:

"After assisting many companies with their share plan requirements through an IPO and indeed our very own IPO with Equiniti, it is clear that this is an exciting time albeit an uncertain one for a business, brought about by the change. Employees play a crucial part in helping the business find its new routine as a PLC and certainly share plans have a vital role to play in providing recognition, motivation and engagement to the company's workforce. In my experience, companies normally start with a free share award at IPO and then look to implement an HMRC tax advantaged plan such as a Sharesave or Share Incentive Plan or in some cases, both. Share plans also act as a fabulous recruitment and retention tool for talent who are vital to business growth and development."

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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