THE IPO REVIEW Q3 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 Q3 IPO Market

Paul Matthews, CEO, EQ Boardroom

In Q3 external factors from China, energy price hikes and supply chain issues tempered what was initially a buoyant start for the quarter.

In London, we saw continued momentum on both the primary market and AIM. There was strong representation from the tech sector as **Wise, Saietta** and **Big Technologies** were among those newly listed, and in Europe, Stockholm prepared for the continents largest listing of the year; **Volvo**.

New York saw a more subdued quarter after what had been a SPAC fuelled, record-breaking year for the exchange.

In China, Beijing continues to impose restrictions on both domestic and overseas listings, which led to the suspension or delay of many IPOs, including that of TikTok owner **ByteDance**.

Also in this quarter's edition we explore boardroom diversity, what it means and how we work towards a healthier corporate culture in which directors more closely reflect their employee and customer bases and make decisions that are better attuned to both.

Global Highlights

NEW YORK

Robinhood – **$2.1bn**
Stevenato Group – **$672m**
A.K.A. Brands – **$6m**
Dutch Bros – **$484m**

LONDON & EUROPE

InPost - **€2.8bn**
HydrogenOne – **£107m**
Bridgepoint Group – **£300m**
Forward Partners – **£37m**
Baltic Classified – **£101m**
Saietta – **£35m**
Seraphim Space Invest – **£112m**

ASIA

China Three Gorges Corp – **$3.6bn**
LinkDoc – **$200m**

London & Europe

Inflationary pressures, delivery failings and staff shortages gave UK investors food for thought.

InPost valued at	HydrogenOne raised	Bridgepoint Group is valued at	Forward Partners raised
€45bn	£107m	£3bn	£37m

The government's announcement this quarter that dividend tax would increase by 1.25% also caused disappointment in the City, especially as competition from continental exchanges grows.

Small bourses like Stockholm are snapping up low ticket size listings (although it will soon host Europe's largest of the year: **Volvo**). Poland's **InPost** listed its €2.8bn raising IPO in Amsterdam. The Dutch also boasted the IPO of €45bn market cap Universal Music.

That said, London remains more than 50% ahead of both Amsterdam and Frankfurt in IPO proceeds so far this year.

Both the main market and AIM enjoyed a bumper quarter for IPOs, with companies eager to soak up the still-present global liquidity, especially in e-commerce and new industries.

HydrogenOne is the first fund on the London exchange to focus on clean hydrogen. It positions well for future-proofed and ESG-orientated portfolios and raised £107m to invest in a range of hydrogen-related technologies. Its promoters epitomise the fund's objectives, being former oil executives who now look to harness the particularly high demand in the industrial sector, where the requirement is to clean up the many existing but unsustainable grey (carbon-emitting) manufacturing processes.

Much excitement greeted the UK's first private equity fund's IPO since 2007. **Bridgepoint Group's** IPO raised £300m on new shares and its backers sold a further £489m against a £3bn valuation. The reception for the shareholder in Itsu and Burger King franchises was thought to be all the warmer because of perceived opportunities to pick up post-Brexit enterprises at historically cheap valuations.

Venture Capital firm **Forward Partners** joined AIM, raising £37m against a £134m valuation. The Group makes equity investments in early-stage, high growth UK companies, having made 60 unique investments to date and built a portfolio of investments worth in excess of £100m, and targets growth in excess of 20% per annum.

Baltic Classifieds, a group of online ad portals, chose London for its £101m raise, achieving a £1bn valuation. Eastern European floats have raised $5.7bn this year on western exchanges according to Bloomberg, showing a preference to their domestic exchanges which have raised $4bn.

In July, London welcomed its first direct listing achieving a valuation of over £8bn. **Wise plc** was started in 2011 when its two Estonian founders became annoyed with the fees banks were charging them for moving money between the UK and Estonia. Wise rebranded from TransferWise in 2021 to reflect the growing range of services it offers to its 10-million strong customer base.

Tech was also well represented in other floats this quarter. **Saietta**, which provides engineering solutions for mass market electrical vehicles, achieved a market cap of £107m in its £35m raise.

Big Technologies jumped 55% on debut in its £16m raise against a valuation of £808m on the back of its strong market share in tracking devices.

Seraphim Space Invest's IPO took off between the Virgin Galactic and Bezos-owned Blue Origin launches. The £178m raise will allow further investment in space technology firms, with both unicorns and start-ups in the mix. Richard Branson was noted to be a part of the over-subscribed listing.

Property finance disruptor **LendInvest** raised £40m, bolstering its tech capabilities. The company developed an asset management platform designed to simplify the mortgage process.

With supply chains a matter of national debate, transportation software and logistics company **Microlise** raised a timely £18.6m against a £156m valuation.

Also riding the zeitgeist was **CMO**, an online building material supplier. With only 10% of the sector's goods sold online, CMO believes construction will follow purchasing trends and is therefore ripe for growth.

Cosmetic retailer **Revolution Beauty** achieved an impressive £510m valuation in its £111m AIM listing. With strategic use of social media influencers, the company has forged ties with major high street and online brands on both sides of the Atlantic and doubled revenues in each of the seven years since its foundation.

Peel Hunt raised £40m against a £260m valuation. The share dealer, majority-owned by its staff, saw revenues double to £197m in the year of lockdown to March 2021.

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The first half of the year got off to a flying start, with Brexit and COVID concerns beginning to ease. During Q3, we began to see momentum slow as we entered the summer period. Market volatility spurred on by supply chain issues, inflation concerns, and general subdued optimism about economic recovery impacted the latter part of the quarter.

Given these concerns, alongside potential investor saturation from last year's IPO backlog, some companies are reassessing their timing. As we enter the year's final quarter, our thinking at EQ is that IPO activity will fall more in line with historical levels.

Robin Walker, Business Development, EQ Director, EQ

New York

Robinhood's listing stood out in a quarter that otherwise saw momentum falter in what had been a SPAC-fuelled record-breaking year for the exchange.

Robinhood
achieved a raise of
$2.1bn

Stevenato Group
raised
$672m

Toast
valued at
$35bn

Dutch Bros
valued at
$4bn

The millennials' share trading platform of choice reserved a significant 25% of its shares for retail, but take-up was subdued. achieving a $30bn valuation in its $2.1bn raise.

Italy's **Stevenato Group** raised $672m against a $5bn valuation on NYSE. Established as a general glass manufacturer in 1949 it now produces vials for 90% of COVID programmes and 41 out of the top 50 pharmaceutical firms.

Restaurant ordering and payment software firm **Toast** saw shares in its $870m raise surge 63% on debut, giving it a value of $35bn.

The American dream was shown to be alive and well with the IPO of coffee retailer **Dutch Bros**, which raised $484m against a day one valuation of over $4bn. Two brothers began the company in 1992, selling hot drinks from a handcart by the railway tracks of a small town in Oregon.

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As the VIX which measures the volatility of the U.S. markets remains at relativity low valuations of slightly above $16 currently, the IPO market has no real deterrence to slow down. Although there are several other factors that the Equity Capital Markets will use to determine the best time for new companies to go public such as overall market saturation and available primary capital investments, the key overall temperature gauge of the entire marketplace is governed by the VIX.

At these current volatility levels, the waters remain very calm and peaceful for the IPO market to continue to be very active for the foreseeable and remaining part of this year.

Joe Conte, Head of Corporate Actions, EQ (US)

Asia

The quarter began with Beijing tightening rules on customer data and gaming which cost **NetEase** and **Tencent** alone more than $60bn of value and sent shock waves through the tech sector. Ripples were felt in other industries after government pronouncements on competition, workers' rights and hours, alcohol and e-cigarettes, celebrity endorsements, semi-conductors, crypto currencies, fertilisers and even the $100bn tutoring sector, which the president criticised for having made profits.

China Three Gorges Corp
raised
$3.6bn

ByteDance
Most valuable start-up
$400bn

China Telecom
raised
$8.4bn

Meanwhile, the previously relaxed rules about overseas listings went into reverse. Any company deemed to hold sensitive technology or data found accessing foreign IPO capital practically impossible. Alibaba-backed medical data company **LinkDoc** had to pull its proposed $200m+ US listing. Similarly, TikTok owner **ByteDance** - the world's most valuable start-up at anywhere between $180bn and $400bn – pulled its New York float and was instead reported to be taking on bank debt of $4bn pending Beijing's "cybersecurity review".

The next step feared by the markets and investors is the targeting of Chinese firms already on overseas exchanges. Didi is seen as a warning of what might befall the c.250 Chinese firms trading on NYSE which make up $2.1trn of the total $46trn market value on the two exchanges.

Within a week of its $4bn New York raise, Chinese Uber-equivalent **Didi** felt the heat of its regulators with investigations and the suspension of key areas of its trading. It ended the quarter at around half its debut value.

State-owned **China Telecom** has already made the passage. Having been suspended in the US earlier in the year, it raised $8.4bn on its new listing on the Shanghai exchange in August. The shares were temporarily suspended on the way up – jumping to the maximum 44% increase on day one – and were temporarily suspended on the way down later in the quarter when they fell by the maximum 10% two days running.

Also hitting the maximum spike on debut on the SSE was **China Three Gorges Corp**. Its $3.6bn raise was the largest since the pandemic.

Professional advisors now report that Beijing is encouraging Shanghai and Shenzhen to focus on taking SMEs public rather than the $150m+ turnover companies that made up two thirds of IPOs last year.

Broad Directors

Diversifying the Boardroom

Going public will generally change not only a company's shareholders, but also its boardroom. The directors are now more visible and subject to greater scrutiny by employees, customers, investors, regulators and pressure groups. These different stakeholders increasingly demand board diversity, not only to reflect their own demographic profile and interests but as a virtue in itself.

Challenging Board Composition

Questions on Board composition rose to prevalence after the 2008 crash, which was widely blamed on excessive risk-taking, short-termism and lack of challenge to headstrong directors. Although the Companies Act refers to the benefit of diversity to companies and the wider community, the main impetus has come from the independent audit and accountancy regulator, The Financial Reporting Council (FRC).

Its first guidance on boards and their governance responsibilities in 2010 emphasised more rigorous risk management and aligning executive pay to long-term goals. But another new objective was greater board diversity to encourage debate and help avoid group think.

Diversifying Diversity

In announcing their first set of principles, the only area of diversification the FRC specifically referenced was gender. It was well placed to do so, being headed at that time by Sarah Hogg, the first woman to chair a FTSE 100 company (3i Group).

However, listed companies soon came under pressure to achieve balance on more than just gender. The FRC has, for example, recently identified difficulties for openly gay candidates in getting board positions:

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In progressing to the highest ranks of corporate leadership, the [LGBTQ+] leaders interviewed for the report often faced discrimination and had to make personal sacrifices." The regulator has now issued guidance to ensure companies engage with LGBTQ+ staff and monitor progress, while encouraging greater coverage of the issue in annual reports.

Stark barriers to LGBTQ+ progression revealed

Former Anglo American Chair Sir John Parker published his review on race representation in boardrooms in 2017 and the results were sobering. More than half of FTSE 350 companies had no non-white directors, who totalled 8% compared to the wider population's 14% (and of these, 40% came from just seven companies).

A target of one ethnic minority director per FTSE 100 board by 2021 has not been met, prompting the FCA to introduce its own measures. For the moment it is providing benchmarks rather than quotas and tackling the problem from a transparency perspective, with listed companies now expected to publish diversity information in a standardised format.

Wider societal pressures are now likely to be as much of a driver for racial diversity as any shareholder action or regulator. In January 2020, 52 FTSE 100 companies had ethnic minority representation on their boards. By March 2021, perhaps as a ripple effect from the BLM events in the intervening period, the number had jumped to 81.

Age Diversity in the Boardroom

FTSE and AIM directors have an average age of 56 and 57 respectively. An obvious obstacle that youth has always needed to overcome is that they will often not have achieved the gravitas (and the board seats) that usually only comes with experience and time spent in a profession or industry.

Yet, aside from bringing in fresh perspective, millennials make up a hard-to-ignore 35% of the workforce. There is also a general acceptance that the digital nativity of younger directors adds crucial insights around the boardroom.

McKinsey research (in the US) found that a third of directors believe their business model is prone to disruption in the short term. Not all boardrooms are equipped to meet this challenge. "There's a new class of problems, where seasoned directors' experiences managing and monetizing traditional assets just doesn't translate... Indeed, some CEOs and board members … argue that the far-reaching nature of today's digital disruptions… means boards must view themselves as the ultimate catalysts for digital transformation efforts."

Class Ceiling

Socio-economic background is also now coming up on the rails as a criterion of diversity. 7% of the population were privately educated but account for 48% of FTSE 350 chief executives.

The 2010 Equality Act left out socio-economic status in part because of a problem with definition. Nonetheless, twenty European countries and Australia have all legislated against social origin discrimination and KPMG recently garnered headlines for setting itself a target of 29% working class directors and partners by the end of the decade.

Diversify et impera

A not uncommon instinctive reaction to diversity targets is that it is virtue signalling and uncommercial. In his 2021 report on diversity in FTSE 350 companies, FRC CEO Sir Jonathan Thompson argues instead that, "Too often the discussion around the merits of diversity… can boil down to a moral or business case, but the two are not mutually exclusive."

Because gender was the subject of the earliest guidelines, research is more readily available on the impact of the increase in female directors. François Ortalo-Magné of the London Business School has written that

> “
> Qualitative findings point to [how]… greater representation of women on boards correlates with a more collaborative approach. This subsequently affects how individuals and committees contribute to decision making, the recruitment of new board members and reducing overconfidence."

More specifically, the FRC's findings show that those FTSE 350 companies with at least one woman on board have enjoyed an uplift in ebitda over the next four years of an average 4% and a reduction in shareholder dissent.

Diversion Tactics

With emerging evidence of its economic benefit and the importance of being on the right side of history and regulators, boards are moving towards diversity, but not necessarily the same diversity. According to the FRC's 2021 survey, 34% of directors rated personality as the diversity factor that contributes most to boardroom effectiveness while gender and ethnicity were held to be most important by only 6%. Whether this personality difference is itself born out of gender / ethnicity / age / socio-economic background is unclear and highlights the inherent difficulty of neatly categorising humans and getting meaningful statistics on the back of such efforts.

Indeed, statistics themselves might be the problem. Because the language of boardroom diversity is percentages there is a danger that it can quickly descend into a numbers game. Large enterprises are used to delivering on specific targets but that does not mean that they have bought into the underlying concepts. Equally, pressure groups and activist shareholders sometimes appear to be focused entirely on the quantity rather than quality.

Also, the very visibility of the board of directors means that its demographic composition can divert attention away from what lies beneath. Lack of diversity at executive and senior management level can literally be kept below board, even though this would normally be the pool from which future board members are chosen.

Competing diversity objectives do not always lead to more diversity, sometimes just a different version of diversity. FRC research suggests, for example, that in order to meet targets in female board positions, working class men (not the subject of any targets - yet) are being ousted. Rather forlornly, the regulator noted, "We have to ask the question whether we are replacing one under-represented group with another".

Onboarding

Is the complexity of the diversity issue slowing down changes to public company boardrooms?

No, says Mark Freebairn of executive search firm Odgers Berndtson. "There's a completely different landscape from twenty years ago where profiles tended to be one dimensional and the usual suspects were getting recycled onto different boards. There's a real recognition that different perspectives add to the depth of any debate and approaches to problem solving." These new perspectives and the ability to provide challenges to the CEO are what adds value to his listed company clients for whom "diversity isn't merely photographic".

The recruitment industry in the UK has signed up to a target whereby one third of every long list of candidates for FTSE 350 boards fits a diversity category, but from there it is still down to company preference. "Companies always start with skills required, especially if there's a change of strategic direction - as is often the case following an IPO - and may then use that opportunity to add diversity. But being expert isn't enough. A director must fit into the board and provide challenge. Another good starting point is to think about the culture you are trying to create and work from there."

Practice and Theory

The practical implementation of diversity is therefore underway in listed company boardrooms, even as the theory, definitions and metrics are still being debated. As diversity beds in, there will be better information on how it has translated into improved profitability.

Meanwhile, the hope and expectation is for a healthier corporate culture in which directors more closely reflect their employee and customer bases and make decisions that are better attuned to both.

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