The IPO Review

EQ Boardroom, Equiniti

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Introduction

"I am delighted to present our IPO round-up for 2018. Decisions on whether or not to list had to be taken against a political as well as a financial context, especially by UK boards. With concerns about disruptions to trade, investors have been apprehensive, especially in the latter part of the year. However, we have also seen outstandingly successful listings which have captured investors' imaginations and turned well-served customers into enthusiastic shareholders.

Such successes demonstrate that sophisticated and liquid markets like London cannot be distracted from opportunities to invest in strong and forward-looking enterprises. Overseas companies looking to list are coming to London in ever greater numbers, attracted by our ready capital, transparency and regulatory standards. In this way London continues to help power the global economy and in turn we at Equiniti are proud to help power the London market. As the largest provider of shareholder services in the UK we count the majority of FTSE 100 companies as clients and with our record of helping companies to list, we look forward to swelling their ranks."

Paul Matthews

CEO, EQ Boardroom

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Executive Summary

With global free trade under pressure and the meaning of Brexit foggier than ever, it could have only been a fascinating year for London IPOs. Companies wrestled with the decision of whether to list now or risk markets becoming increasingly unsettled. Initial positivity in the first half of the year noticeably waned by Q3 as high-profile IPOs encountered challenging trading conditions.

The Financial sector showed the most willing to float and took the lion's share on the main market and almost matched Technology's top honours on AIM.

Stout-hearted retailers also listed in the year; ignoring the script and raising money to expand their high street presence. Conversely, Industrials sector had a modest year in terms of IPOs and Healthcare kept an even lower profile.

Aston Martin and Funding Circle added a dash of colour to the main market, which also saw AJ Bell list and Smithson having to increase the level of its raise from £250m to £823m to meet strong investor demand. Meanwhile AIM could boast a £150m raise for property finance company Urban Exposure and £108m for gamers Team 17.

Overall the year was down on 2017 in both the number of listings and the money raised. The companies approaching the market, however, were larger. Tech floats were up and international IPOs remained strong. London held its own in the face of fierce competition for cross-border listings from the US and Asian exchanges.

Opinions on the outlook for 2019 IPOs are healthily varied. Liquidity is seen as remaining strong, but with investor appetite constrained by the market's traditional foe: uncertainty.

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Sector Analysis

Financial Services led the way on both the main market and AIM, accounting for almost half of all UK incorporated flotations and capital raised. The sector contributed a quarter of AIM's 2018 floats, but the dominance was particularly evident on the main market where Financials made up 59% of the year's listings.

Financial sector companies launching IPOs included Quilter, which floated £239m worth of shares, Amigo £327m and Smithson £823m. Investment platform AJ Bell's listing at the end of the year gave it a market cap of £651m.The average new money raised across Financials exceeded £100m.

The majority of **Technology** floats were on AIM, although Funding Circle's £440m was a highlight of the main market. The continued allure - or mystified awe - of blockchain saw a main market listing for cryptocurrency-servicing Argo Blockchain, which successfully raises £25m. Avast's £2.4bn market capitalisation on admission underlined London's continued status as a favoured market for tech IPOs. The Czech cyber security company joined fellow Europeans Spotify (listing in NY) and Adyen (listing in Amsterdam) in going public in 2018 and boosting the continent's unicorn count. Izettle had also intended to float but was nabbed by PayPal at twice the price about to be asked of the public.

The Technology / Telecoms sector IPOs would have been considerably boosted by O2, which had been expected to float in 2018. However, the c. £10bn mcap Telefónica business again postponed its listing until Brexit uncertainties are resolved and investors are less distracted.

Mediterranean driller Energean raised £330m and was the stand-out of the Oil and Gas IPOs and the only one on the main market. The sector has been buoyed by a continued recovery in oil prices: Brent Crude began the year at over $66, up from a 2016 low of $37.

Healthcare did not trouble the main market with an IPO at all in 2018, contrasting poorly with European IPO activity for the sector. Ever-increasing pressures on margins in the UK, not least from wage costs and concerns about where post-Brexit labour will be sourced, kept the sector in the doldrums. The only three listings on AIM raised a modest £85m.

2018 saw the beginnings of real wage growth but consumer confidence remained low, household budgets tight and the high street decidedly wobbly. This made it a challenging year to go public for businesses in the **Consumer Goods** and **Consumer Services** sectors, with only two main market and four AIM floats between them.

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Highlights of Main Market Listings

The LSE's first float of the year saw **IntegraFin**, owners of the financial advisor platform Transact, valued at £650m. The 20-year-old firm already had plenty of exposure to the investment community, with over 150,000 investors and 5,000 FAs using its services. The £178m raise saw equity returned to the founders.

Aston Martin Lagonda raised £1.2bn from the exchange. The fully-subscribed offering gave the company a market capitalisation of c. £4.3bn and a vote of confidence in its ability to deliver the planned range of SUV and electric cars.

There was great interest in **Funding Circle**'s September float. The firm, which has passed the £5bn loan mark and attracted 80,000 investors is seen as a bellwether for its generation of peer-to-peer fintech lenders. The £440m raise valued the pre-profit business at £1.5bn and was against the headwinds of a second base rate increase and greater political and regulatory scrutiny of PTPs. These challenges appeared to be reflected in subsequent trading and together with Aston Martin the week after, stayed below launch price since listing.

The more intense regulatory environment was also behind Old Mutual's decision to spin off its wealth management division as **Quilter Plc**. The well-received IPO saw Quilter achieve a market cap of £2.8bn, second only to Aston Martin Lagonda.

Smithson Investment Trust notched up the highest raise by a UK-domiciled investment fund when it launched its IPO in September. Initially targeting only £250m, demand was so great for the global equity fund - advised by City star Terry Smith - the cap had to be re-set to £600m and then again to the record-breaking £823m. Money like that burns holes in even the biggest pockets and the fund predicted it would fully deploy the capital within three weeks.

Book retailer **The Works** read the market well when raising £65m from its listing. This new and public chapter will see the business continue to defy prevailing sentiment and expand its already large store estate.

Investors dug deep to raise £25m for cryptocurrency mining company **Argo Blockchain**, the first of the "fifth industrial revolution" businesses to list on the LSE. Argo has already done the spadework for those looking to access the mining-as-a-service investment opportunities by setting up a mega plant in Quebec.

Battery technology fund **Gore Street Energy** could only be positive after raising £31m from its IPO. The firm sees worldwide investment opportunities in utility scale energy storage and sought capital to maximise its first mover advantage in new markets.

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Highlights of AIM Listings

Property development finance company **Urban Exposure** impressed with a £150m raise. Four years after shelving plans to float a debt fund, Urban Exposure felt its now-wider geographical base allowed it to float the company itself. The net funds will see a scaling up of both asset management opportunities as well as further lending.

High-profile City fund manager Neil Woodford nursed **Sensyne Health** to a £60m AIM listing. Institutional investors in particular bought into the application of AI on anonymised NHS data to improve medicine and patient treatments.

Codemasters' use of technology for leisure was just as well received and its £185m raise valued the business at around £280m. The developers of the F1 video game took a pit stop when they first explored a float in 2007 but were over-subscribed in the less turbulent 2018.

Fellow gamesters **Team17** also launched this year, raising £108m from mainly institutional investors which included Lloyds Bank. The champion of independent game developers now has a market cap of £217m.

Mind Gym lifted a weighty £51m at its AIM float. What was a kitchen table business in 2000 now boasts several blue-chip clients for its behavioural science-based training products. The listing comes at a time when the #MeToo movement has prompted many firms to examine their corporate culture.

African miner **Kore Potash** staked its claim to both a London and Johannesburg listing to improve its international profile. Potash prices have stabilised in the past two years after great volatility over the last decade and the firm achieved its aim of a £9m raise to exploit Congolese reserves.

Fintech and disruptive finance portfolio owner **TruFin** raised £70m from institutional and professional investors. The capital will be used to build up its subsidiaries which include specialist lenders Oxygen Finance, DFC and Satago.

Cake Box sponged up £17m in an IPO that valued the franchise business at £43m. Growing at a rate of 2 stores per month, the hatchers of the egg-free cake will use the funds to expand its existing 91 units to 250.

Property search portal **OnTheMarket** found a home on AIM. It will use the £30m it raised to rival Rightmove and Zoopla by increasing investment in marketing and technology.

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The Battle to Attract International Tech IPOs

Although most companies float on their home market, the technology sector is more globalised and geographically agnostic than any other. London has long been a premier destination for tech IPOs and is continuing to adapt to compete with New York and Hong Kong for a bigger slice of the action.

To gain international tech IPO business, markets need not only to have investors with deep pockets but also a regulatory environment that balances shareholder protection with ease of listing. In 2018, for example, Hong Kong demonstrated a willingness to bring its regulations in line with NYSE by relaxing rules on dual listing and profitability.

This was specifically to accommodate Chinese tech firms which have to date tended to float in the USA. (Nine out of ten of the largest Chinese digital firm IPOs have been on NYSE.) It is a prize worth fighting for: According to Dealogic, Chinese tech firms alone raised over $15bn to October 2018 – 40% of all cash raised by tech IPOs globally.

The policy is already bearing fruit. Alibaba's IPO in 2014 on NYSE was the largest in history at £250bn and an existential shock to Hong Kong. Following this year's relaxations, however, Alibaba's Jack Ma indicated that his focus would now be on listing in HK.

The UK has taken note. The creation of the premium listing – originally conceived to accommodate Aramco's planned float - demonstrated a political will to make our markets very much open for business. Similarly, the playing field has evened out with the relaxation of the FCA's rules on pre-float information, which came into force mid-2018. Brexit is likely to make the UK government amenable to further regulatory changes that allow London to compete globally.

London is the fourth largest cross-border IPO destination across all sectors and the largest European market (accounting for half of the €3.9bn raised in Q3 across Europe). LSE hosted the largest European tech IPO of 2018, which valued Czech cyber security firm Avast at £2.4bn.

EY noted that "The London IPO market is becoming more active and diverse…the emergence of several technology and gaming companies… demonstrates that London can be a leading destination outside the US for tech IPOs".

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2018 vs 2017

After a positive first half, IPO activity in 2018 was slowed by global volatility and Brexit uncertainty. Companies were torn between waiting until international relations calm down and Brexit terms are clearer or listing ahead of what might be more heated trade wars and Brexit chaos.

The market gave encouragement at the beginning of 2018 with the FTSE at record levels, albeit based largely on a low pound. The second half cooled with listings largely achieving the low end of valuations or in some instances being pulled at short notice. O2 cited Brexit uncertainties for delaying its IPO and legal case financers Vannin Capital pointed to volatile market conditions. Izettle, meanwhile, settled for the certainty of a trade sale.

Q3 2018 was especially stark relative to Q3 2017 as impatience with Brexit negotiations and anti-free trade rhetoric intensified. Listings were down 44% and money raised fell by 65%. This was, however, against a strong 2017 and the context of fewer IPOs globally.

London was in line with international trends in seeing fewer, but larger businesses go public in 2018. The number of domestic IPOs on the LSE fell compared to last year, but the average market capitalisation of listing companies soared. AIM-floating mcaps averaged almost £100m, with gamers Codemasters and Team 17 and big data firm Sensyne all above the £200m mark.

The number of listings across all but one sector was flat relative to 2017 or fell back. The exception was Technology, albeit from a low base last year, which saw an increase from three to five listings. This again reflected a global uptick for tech listings, although to a lesser extent than in the USA and China.

In 2018, London retained its top-ten place among worldwide markets for IPOs. This was again boosted by international listings, which increased as a proportion of total IPO activity compared to 2017 as indeed it has since 2014. LSE is the fourth most popular market for overseas company IPOs behind NASDAQ, NYSE and Hong Kong.

Outlook 2019

Prospects for the global IPO market in 2019 have generated considerable excitement. George Lee, senior investment banker at Goldman Sachs states uncategorically, "2019 will be a very active year…there's a remarkable class of companies… poised to access public markets… and there's a lot of capital on the side lines to buy growth." The companies he is principally referring to are mega-unicorns Uber, Lyft and data miner Palantir. If successful, these listings could also pull fellow unicorns Pinterest and Airbnb off the fence and lead to a record-breaking year for flotations.

Jackie Kelley EY IPO Leader, points to the extended bull run in the US and pent up interest in listing from heavily VC-backed businesses. "Valuations are so high now… Companies are going to push through... The volume of activity is significant."

There is a consensus that US IPO activity will have its usual knock-on effect in Europe, particularly for tech. Looking ahead, PwC notes that Europe has a relatively healthy flotation pipeline and that this is coupled with low levels of volatility.

Closer to home, geopolitical factors are making predictions about UK IPOs and the broader market more challenging, with some professionals giving up altogether. KPMG's Chief Economist Yael Selfin reports that "The UK is entering a period of unprecedented uncertainty… it is an almost impossible task to forecast what will happen to the UK economy."

Lazard Asset Management, however, points to the underlying strength in the UK economy, which should lead to stronger investment activity when there is greater clarity on Brexit.

> "Important milestones in the coming months could refocus … investors' attention on positive UK fundamentals."

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