

A wide-angle, low-angle photograph of a modern cable-stayed bridge. The bridge's two tall, grey concrete pylons are on the left, with numerous white cables fanning out to support the bridge deck. The bridge extends into the distance on the right, supported by a series of smaller, evenly spaced concrete pillars. The water in the foreground is calm and reflects the bridge and the overcast sky. The sky is filled with soft, grey clouds, with a hint of light breaking through on the right side.

THE IPO REVIEW Q3
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](#).

Market Roundup

London

The London market has been helping companies shore up capital in difficult times with plenty of secondary placings. Initial offerings, however, have been sparser on the ground, reflecting the combined effect of the pandemic and remaining Brexit uncertainties. To July, there were 13 IPOs compared with 58 at the same point in 2019.

The third quarter has, however, seen some high-profile successes for London. On-line health and beauty retailer **The Hut Group** achieved a £5.4bn valuation and a £920m new money raise for the company, together with a further £961m for existing shareholders. Over-subscribed and well-received on debut, THG was London's biggest ever tech listing (by market capital).

The Shanghai-London platform, Stock Connect, welcomed its third entrant, **China Yangtze Power Company**, which raised £1.5bn in GDRs. The world's largest hydro-electric company was the first Chinese company to be awarded London Stock Exchange's Green Mark Award, for businesses deriving more than 50% of revenue from the green economy.

Elixir International's float in July was AIM's first IPO since March. The "challenger consultancy" chaired by ex-BT CEO Gavin Patterson achieved a £100m market capitalisation on debut. The London-based firm, which already counts Barclays, Virgin, M&S and John Lewis as customers, will use the £20m raised to pay down debt and expand into new markets.

Defying the market, **Various Eateries** raised expansion capital from AIM of £25m against a valuation of £65m. Hugh Osmond, founder of the company which includes the laid back, stay-all-day Coppa Clubs declared, : "To many, this crisis is an existential threat; but it is also a once-in-a-lifetime opportunity to build a new, major leisure business."

Kooth's successful IPO, raising £16m off a £74m valuation, leveraged the growing focus on mental health. The company provides a platform for people to discuss issues anonymously and access services.

London's strong links with the mining industry was underlined with three delayed IPOs this quarter. **Castillo Copper** raised £1.3m to expand operations in its native Australia and also Zambia. **AEZ Gold** raised £42.5m for its established Greenland operations, where it holds licences for over 1,200 square miles of territory. **Critical Metals** raised £800k to acquire African mines. The company believes that Covid works in its favour as economies seek to find non-Chinese sources of copper and rare earths.

New York

The US has had a strong quarter, with almost as much raised as the preceding three quarters.

Tech grabbed most of the headlines, with database software provider **Snowflake** raising \$3.4bn from enthusiastic investors, who doubled its value on debut (to around \$70bn at peak, or 175x revenue). This put fellow software unicorns **Unity** and **JFrog** into the shadows with respective raises of \$1.5bn and \$585m respectively.

Current circumstances surrounding COVID-19 has propelled other IPOs to success. In the Healthcare sector, gene engineers **Poseida**, molecular profilers

Genetron and protein-focused **Inhibrx** raised over \$600m between them, oncologists **Nkarta** tripled on debut and start-up cell computer modeller **Relay Therapeutics** raised over \$400m. The strong launches reflect The Nasdaq Biopharma Index's performance as a whole, up almost 20% in the year.

Vertex pioneered tax accounting software 40 years ago and counts half of the Fortune 500 as clients. It has raised over \$400m on Nasdaq against an impressive \$3bn valuation to expand its reach overseas.

Demonstrating the liquidity that remains in the market, two funds, **BlackRock Capital Allocation** and **Nuveen Dynamic Municipal Opportunities** raised \$2bn and \$780m respectively.



Shanghai

Retail investors, who snap up 70% of China's IPO shares, continue to surge onto the market, with 2.4m new trading accounts opened in July alone. The average launch day share rise is 126% even though the mean price to earnings multiple is 85x. Biopharma is getting a particularly enthusiastic welcome: **Contec Medical Systems** shares, for example, rose a record 1,016% on its first day of trading, having been nearly 5,000 times over-subscribed.

Secrecy is such that bankers are being asked to sign NDAs in a personal as well as corporate capacity. No single bank is being allowed to see the full picture for the mega-unicorn thought to be valued at \$150bn, with work assiduously divided between them and underwriters being dissuaded from working with competitors

Hong Kong

Against predictions that the new security measures would unsettle Hong Kong's exchange, HKSE actually had a healthy quarter, helping it in its race to retain its top IPO ranking. In one day alone in July, Hong Kong hosted seven listings, just one behind its record of eight set two years earlier.





Good Works

The Growing Importance of ESG in Public Companies

Shareholders of all shapes and sizes now demand higher ethical standards from their investments. The corporate world has responded by bringing environmental, social and governance (ESG) issues more centrally into their strategic planning. This is, however, a highly reactive and constantly evolving area. Businesses looking to go public need to develop an adaptable ESG policy that will see them through the listing process and beyond. They then need to communicate it effectively to an investor base that will itself be subject to change.

FOLLOW THE MONEY

ESG has moved from being a peripheral corporate issue to big business in its own right. According to the Global Sustainable Investment Alliance's last biennial report, ESG-orientated investment is now worth over \$30.7 trillion: up tenfold since 2004. Although nearly half of ethical investments originate in Europe, participation is growing internationally, with US and Asian institutional funds responsible for much of the recent increase.

Strong environmental, social and governance positioning appeals to an increasing number of investors not only on points of principle but also because it has been demonstrated to improve returns. Nordea Equity Research found that Scandinavian companies between 2012 and 2015 with the highest ESG ratings outperformed those with the lowest by 40%. In part this might be explained at the point of sale. Customers have increasingly been factoring ESG into their buying decisions and will pay a premium for green and ethical products (70% will pay 5% extra according to McKinsey).

There also appear to be wider, structural factors to explain ESG as a financial benefit. A comprehensive 2015 study published in the Journal of Sustainable Finance & Investment examined over 2,000 investments and found a 63% positive correlation between strong ESG propositions and business performance (compared to 8% negative). Aside from increased sales, solid ESG helped by lowering costs, improving employee productivity and reducing legal and regulatory intervention. For these reasons, a social focus is no longer

perceived as a drag on profits or relegated to a page of platitudes in annual reports but rather a core tenet of successful corporate strategy.

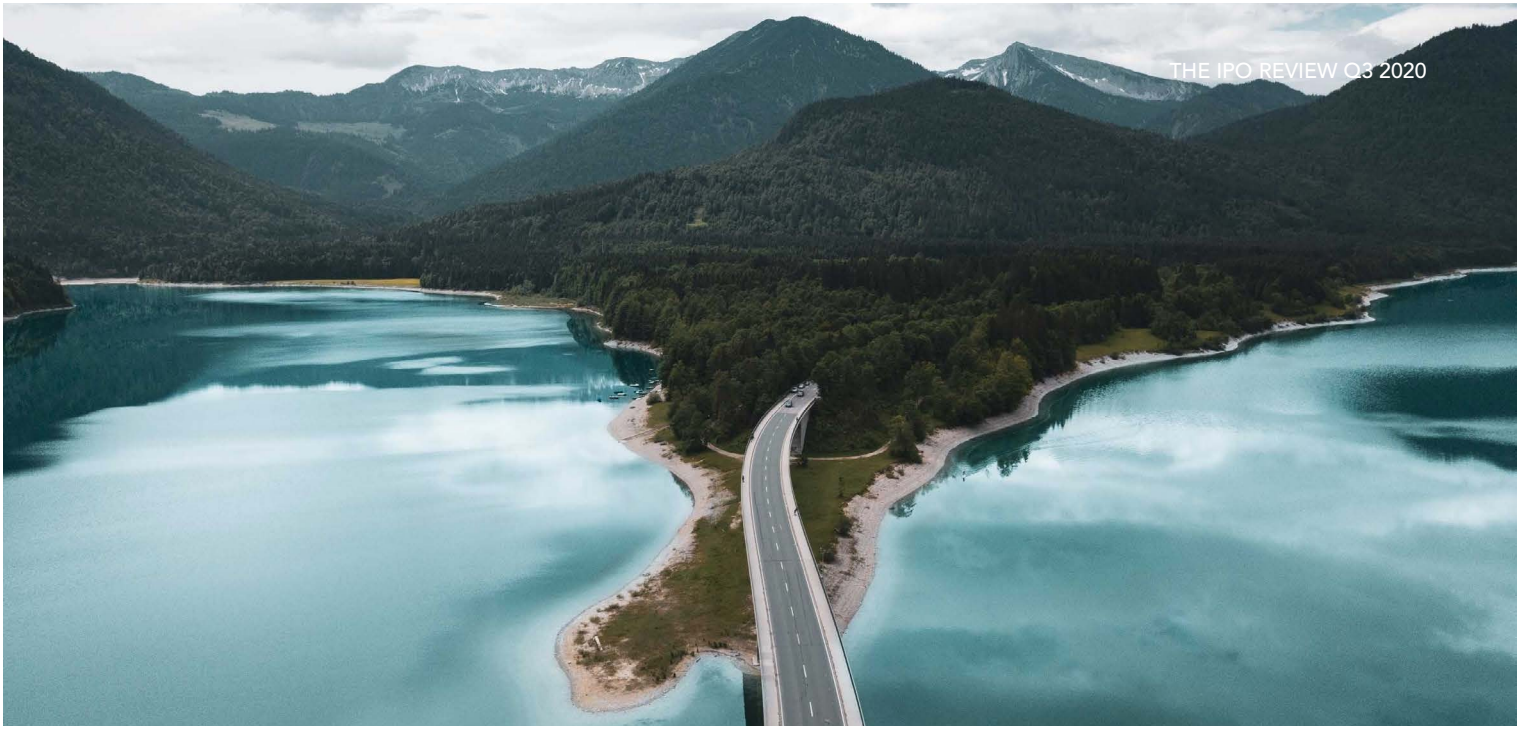
HOT TOPICS

The issues that fall within the ESG spectrum are growing. In an attempt at systematisation, the US-based Sustainability Accounting Standards Board has in fact come up with 77 ESG metrics across services and industry. Broadly, the environmental aspect is about a company's contribution to the climate and use of resources; socially, a company's relationship with people and communities and from a governance perspective, its ethics and employment practices. Within these categories, particular issues tend to wax and wane in the public and shareholder consciousness: carbon emissions; bribery; executive pay; board diversity and child or slave labour having variously headed ESG agenda.



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Adding to the complexity, businesses are not only judged (and valued) on their own ESG actions but are also held to account for the standards of associated enterprises and investments. In the wake of mass shootings in 2015, Walmart stopped selling assault rifles. But in the same year it also faced criticism from pressure groups about low



pay, abuses and dangerous working conditions at many Asian suppliers, which was a harder social issue to manage immediately. The retailer now employs 150 people in a responsible sourcing unit and audits the 100,000 companies in its supply chain for adherence to basic standards.

SHAREHOLDERS ARE REVOLTING

Listed companies are of course not only more exposed to public attention on their ethical standards, but also the particular scrutiny of their own shareholders. ESG issues now account for over 50% of shareholder resolutions in the US. Previously passive pension funds and other institutional investors with significant AUM have begun to feel, in the words of Professor Eccles of Saïd Business School, that they are “too big to let the planet fail”. BNP Paribas Asset Management, with the weight of €440bn behind it, has a head of corporate governance, Michael Herskovich, who engages with investees’ climate policies and has stated bluntly that “we cannot afford to wait”.

Nor are all retail investors content to skim read a few pages of annual reports, take a back seat at Annual General Meetings and let boards get on with it. Rather, shareholders small as well as large have become more aware of their power, more organised and more vocal about ESG.

In the “Shareholder Spring” of 2017, annual general meetings became battlegrounds over executive pay. Institutional and individual investors called out what they saw as poor governance and unfairness. A fifth of FTSE 100 companies faced significant shareholder opposition on board remuneration, prompting the government to establish a public

register to record the dissatisfaction. Since then, shareholder activism has become a regular feature of AGMs, often generating unwelcome headlines.

Lobby groups also use shareholding as an entry point. The not for profit organisation ShareAction has the stated aim of achieving a “virtuous circle in which people can see what happens to their money and become more engaged with the workings of the investment system... [and] unlocking the power of investors to catalyse positive social and environmental change”. In May this year, 130 ShareAction supporters bought single shares in Barclays and successfully got through a resolution on the bank’s carbon emissions.

Public companies in the UK are more in the sights of activist shareholders than most. A report by consultants Alvarez and Marsal highlighted ESG as being of increasing importance in the wider institutional community and growing as a cause of shareholder activism relative to more traditional agitation for mergers and demergers. Their study found that in 2019, the UK had more activist targets than France and Germany combined, with companies in the consumer, industrial and technology sectors most often in the crosshairs.

ACTING IS REACTING

“Publicly listed companies in Europe ignore activist investors at their peril,” states the Alvarez and Marsal report. “Once targeted by an activist, senior management and the board will find themselves expending significant time and money, considering issues that they hadn’t (but should have)... As a result, the companies and their own professional reputations will be put at risk.”

Companies have variously harnessed or resisted the wind of change. BlackRock's CEO Larry Fink's famous letter to shareholders declared that "society is increasingly looking to companies... to address pressing social and economic issues" and that "purpose... is a company's fundamental reason for being". At around the same time Amazon's board garnered unwelcome headlines by recommending against environmental resolutions ranging from food waste to hate speech that had been put to shareholders by its own employees.

Whatever the strategic or financial justification, clashing with shareholders over ESG is a bad look.

RELATIONSHIP ADVICE

In anticipation of being measured and challenged by retail and institutional investors as well as lobbyists, companies about to list have generally formulated an environmental, social and governance policy. But a policy also needs to be explained and disseminated. Mutual understanding and effective communication between boards and shareholders on ESG reduces the risk of activism and rancorous AGMs. This is where the science of investor relations (IR) comes in.

Richard Davies, Managing Director of RD:IR, EQ's investor relations business points to the convergence of governance and business management evaluation as the reason that "issuers need to get their ESG

strategy messaging out to relevant audiences in the same way they treat their equity story messaging". This is because "ESG is absolutely and intrinsically part of the IR future, and a significant part of how investors value companies."

In his work preparing EQ clients for going public, Richard Davies is always keen to emphasise that the investor base of a public company can change radically. Post-IPO, he helps boards to stay current on who they are reporting to: "Analysing the share register and looking beyond nominees to ultimate beneficial owners helps companies gauge their investors' ESG expectations and helps them tailor policies and communications more appropriately."

IN IT TOGETHER

Getting the balance between sustaining profits and sustaining the planet will always have tension points and companies readying themselves to go public already have plenty to think about. However, companies with robust ESG policies perform better for their shareholders and for the communities in which they operate. If public companies can combine strong ESG with sound investor relations then their market reputation and value will improve. With corporate interests and sustainability aligned, it is a welcome case of win win.

Starting your 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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