EQ

THE IPO REVIEW 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.

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CEO Introduction

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If black swan events teach us anything, it is the importance of ready access to capital. Public companies certainly felt the impact of COVID-19, but the blow was generally softened by retail investors' personal liquidity and long-term optimism. With unexpected leisure time and fewer ways to spend money, "accidental savers" opened share accounts in their millions and agreed with Warren Buffett that, "Opportunities come rarely. A climate of fear is an investor's best friend".

EQ continues to help companies as they go public and tap into this source of capital. We also partner them in the brave new world beyond with regulatory matters and shareholder engagement. Whether black swans or blue skies are above us, we'll always welcome a discussion on your plans.

2020: A game of two hemispheres

The pandemic amplified something that had already begun to affect IPO activity in 2019: the revival of competition between east and west. On 1st January 2020, the Huanan seafood market in Wuhan was closed for disinfection. In the weeks that followed, it was the Shanghai and Shenzhen stock markets that closed, and the virus's progression seemed to add only to the woes of the east, alongside street protests in Hong Kong and China's tariff spat with the US.

By the second quarter, however, the picture changed to containment in the east and disarray in the west. IPO activity flat-lined in London, which hosted a single listing in April and none in May, while the NYSE had a difficult spring, with fewer than half the launches of the same period in 2019.

By the third quarter, the bounce-back effect lifted all markets. Retail investors snapped up old names at reduced prices, providing fertile ground for new entrants, especially in tech and healthcare. In what ended up a strong year for listings, NASDAQ eventually claimed first place for IPO proceeds, followed closely by Hong Kong and Shanghai.

Eastern markets contributed significantly to the increased global IPO proceeds, with Shanghai's STAR market, particularly in the ascendant. This surge was encouraged by the coinciding factors of heightened political rhetoric from Washington while Beijing and Hong Kong put out welcome mats in the form of looser regulations for home-grown techs that instinctively looked to NASDAQ. JD.com and NetEase duly followed Alibaba with secondary listings on HKEX.

As tensions between East and West continued, political footballs were sought and found. Among these was Luckin Coffee, which launched on NASDAQ last year, aiming to surpass Starbucks in China with apps, self-service and deliveries. In a country of avowed tea drinkers, Luckin was opening ten stores a day at its peak. The story proved too good to be true, and auditors found evidence of huge sales inflation. Luckin Coffee was de-listed, and in the wake of the scandal, new US legislation requires access to audited accounts - which Beijing has until now not permitted - or face expulsion from US exchanges.

Applicants for listing, and the 210 Chinese firms already trading in New York, must also prove they are not controlled by a foreign government. According to the SEC Chairman, this helps "level the playing field for all issuers", while the Chinese Foreign Ministry described it as "politicising securities regulation".

2021 will likely see further clashes, and the Sino-American fluidity which has characterised so many tech and healthcare IPOs in recent years may be less evident.

Hong Kong

Having caused fears in 2019 that it was out of control, 2020 saw Hong Kong trying to convince foreign investors that it was not controlled. Restrictive legislative measures by Beijing did not affect the health of the HKEX IPO market, which raised $50bn across more than 120 companies, bulked up by Chinese firms looking for a foothold closer to home than New York.

Chief among these was **JD.com** with a $3.9bn raise, followed at the end of the year by its own online healthcare division **JD Health,** with a $3.5bn raise in December. In case anybody missed the significance of the move, Nasdaq-listed gaming giant **NetEase's** CEO spelled it out after its $2.7bn Hong Kong raise, explaining that it was "returning to a market in which we share a closer mutual understanding".

There was a flurry of Chinese real estate companies listing on HKEX. Beijing has begun to worry about over-indebtedness in the property sector, and Hong Kong has been pleased to assist in shoring up balance sheets. Tencent-backed **Shimao Services** managed a $1.3bn raise. Still, for the most indebted of them all – **Evergrande Property** with borrowings of $124bn and counting – the market reception was decidedly cooler, and pricing was firmly at the lower end of the expected range.

Other highlights included fast-food operator **Yum China's** $2.2bn raise and **Nangfu Spring,** which became more liquid by $1.1bn and overtook Volvic and Evian with a $48bn valuation.

Having won the top spot for IPOs in seven of the last twelve years, Hong Kong is now debating a move from quantity to quality by significantly raising the profit threshold. No change would be implemented before July 2021, but such a measure would favour large Chinese corporations over local businesses, and increase the role of junior market GEM, which has no profit bar.

London

After political mayhem in 2019, London had looked forward to a better year for IPOs. Despite some rather large hurdles, including COVID and continued uncertainty over a trade deal with the EU, London welcomed a 19.4% increase in IPOs compared to 2019.

The Hut Group's £920m raise provided much cheer. With its strong digital capability, the online beauty product retailer achieved a valuation of £5.8bn, and its shares have traded solidly through the turbulent year.

Calisen installs smart meters in homes, with much encouragement from government and environmentalists. By listing early in February, the company managed a £300m raise against a £1.3bn valuation before lockdown took its toll on operations.

Re-insurers **Conduit** raised £826m in December. It won over investors by aiming for 5%+ dividends and being new and so unencumbered by pandemic fall-out and other catastrophes that have weakened its rivals.

London's global reach remained strong, with international IPOs prominent in the year. The joint Shanghai-London platform Stock Connect was bolstered by two high profile listings. **China Pacific Insurance's** $1.8bn GDR issue was equalled only by its compatriot, the world's largest hydroelectricity producer **China Yangtze Power Company.**

Another overseas green energy company had less far to travel. In what was one of the Baltic states' most significant transactions this century, renewables firm **Ignitis Grupė** from Lithuania collected £426m in new money, valuing the majority state-owned company at £1.5bn. The utility has become an acclaimed beacon for clean energy, reducing generated CO_2 by 96% in the past four years.

London was also honoured to host Kazakhstan's first IPO in two years. Fintech **Kaspi** achieved a valuation of £6.15bn, the country's highest-ever valuation for a public company. The Goldman-Sachs-backed company services a largely rural population that would otherwise risk exclusion from banking.

Round Hill Music hit the right note with its third fund purchasing the rights to what the CEO describes as "blue-chip songs with enduring popularity". Investors have responded to the tune of £215m in expectation of royalties from the likes of Black Sabbath, Limp Bizkit and The Goo Goo Dolls.

Miners continued to favour London. Extractors of everything from gold to copper, rare earth, oil, gas and helium all successfully raised funds through the year.

China

Shanghai Stock Exchange had its 30th birthday but couldn't pause to celebrate. Having launched with just eight companies it now hosts around 1,600.

Together with Shenzhen, Shanghai enjoyed an increase in IPO activity of around 80% over 2019, driven principally by the OR by its tech-focused STAR market, which made up nearly half the $70bn raised. Investor reception on Chinese exchanges has been wild. Shenzhen Stock Exchange stated that IPOs in the past year have on average been over-subscribed 2,814 times and risen 44% on the first day of trading.

After such a stellar performance it is unfair that the year's biggest headlines were for a listing that didn't happen. At $34.5bn, Jack Ma's Ant Group dual listing in Shanghai and Hong Kong was to be the largest in history but was pulled by regulators days before launch. Differing explanations arose: that Jack Ma name-dropped President Xi too often and that his Alipay platform threatened the established banks and encouraged too much personal debt. But there was a general consensus that his provocation of regulators with criticism that they were stifling innovation was the immediate cause of the cancellation.

Standing out from the large crowd of IPOs were **Semiconductor Manufacturing International Corp's** $6.6bn raise and **Beijing-Shanghai High-Speed Railway Co.'s** $4.5bn raise, both on Shanghai's exchange.

Pavements may get still more dangerous after **Ninebot's** successful raise of $200m. In a highly significant move which outlines China's keenness to lure tech companies onto domestic exchanges, the owner of Segway and producer of increasingly intelligent wheelies was the first STAR IPO to issue Chinese depository receipts with a variable interest entity structure (VIE).

VIE is the favoured workaround for foreign direct investment into restricted Chinese sectors but has previously been used for listings on overseas markets by big techs such as Alibaba and Baidu. An investible holding company is created, which then has a contractual relationship with the actual operating company via an offshore entity. The fragility and potential for conflict of interest has made VIEs controversial, but Ninebot's IPO will pave the way for more such IPOs and increasingly put the structure to the test in coming years.

New York

In the first half of 2020, IPO proceeds fell below $5bn in every month. In the second half, no single month saw less than $5bn being raised. It was a recovery that amazed NASDAQ President Nelson Griggs, who saw ten times as many IPOs than he had reckoned for. Expecting COVID-cancelled investor roadshows to mean the cancellation of launches, he observed instead that "roadshows became virtual and they turned out to be even more effective".

Epitomising the sleepy start to the NYSE in more ways than one was online bed company **Casper**. It had sweet dreams of unicorn status with a $1.1bn target valuation, but failed to achieve even half that.

Unicorns did eventually appear, and they rallied New York as the year progressed. Data storer **Snowflake** ($3.4bn raised), gaming enabler **Unity** ($1.5bn) and operations atomiser **JFrog** (585m) set the early pace. **Palantir**, the CIA's favourite data analyst, sidestepped potential IPO uncertainty with a direct listing which valued it at $20.6bn. By the end of the year, it had overtaken IBM with a market cap of over $120bn.

Bread and circuses inevitably did well. Presumably hungry at the time, investors supported food delivery **DoorDash** $3.4bn raise, which gave it a $60bn valuation. Despite widescale shutdowns of recording studios and live events, the show went on for **Warner Music's** $1.9bn raise against a $12.75bn valuation. The listing demonstrated how traditional companies had embraced streaming, which was initially seen OR had initially been seen as a potentially fatal threat.

Also, COVID-proof were RNA experts **Maravai Life Sciences**, which was rewarded for good timing with $1.86bn of new proceeds, telehealthco **Amwell's** $742m raise against a $4bn valuation and medical steriliser **Sotera Health**, which also passed the $1bn new money mark in the last quarter.

NYSE reserved the best till last. Airbnb booked in at a value of $47bn for its $3.7bn raise in December, but checked out on the first day worth over $100bn: more than the combined value of Marriott and Hilton, the world's two largest hotel groups.

2021

Having taken a hit of 4.4% in 2020, the IMF had projected global GDP growth of 5.2% in 2021 and 3.9% in advanced economies. India and China show the greatest potential for growth at 8.8% and 8.2% respectively.

The UK was predicted to have growth of 5.9% but against a sharper-than-average dip in 2020 of 9.8%. However, the latest variant of the virus will make this bounce-back harder to achieve.

Low interest rates, negative gilts and greater retail participation in markets around the world still bode well for stock markets in 2021. However, shares of all classes are still prone to jitters, and institutional sentiment still lags retail enthusiasm.

As seen above, the technology-focused IPO market had already appeared to shrug off the pandemic by mid-2020 and for 2021 it offers more exuberant new entrants. Elon Musk's **SpaceX**, Google self-drive **Waymo**, mobile payment **Stripe** and share platform **Robinhood** are all set to list in the US.

London looks to add to the party with billion-plus raises for **Brewdog, Deliveroo, Jaguar, McLaren**, cybersec **Darktrace** and garage forecourtiers **EG Group**.

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.

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