THE IPO REVIEW Q1 2021

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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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2021 Q1 IPO Market

Global exchanges got off to a flying start undaunted by waves and ripple effects of Covid-19 and the shaky handover of power in Washington. However, as the quarter drew to a close, several high-profile techs found a cooler reception from the markets on debut, potentially slowing the year's regained momentum. SPACs drove much of the US activity and in our quarterly article we marvel at their rapid expansion and consider their future now that they have established a beachhead on this side of the Atlantic.

London

A rejuvenated IPO market saw listings for industries across the maturity spectrum from boot making and tin mining to online retailing and data hosting.

The biggest story of the quarter came on its last day, with **Deliveroo**'s mega-IPO: London's largest since Glencore in 2011. Existing customers were served ahead of the wider retail market, with its app-users able to access up to £1,000 in the £1.5bn raise.

Trustpilot also raised £47m in the same week. The firm began life in a Danish garage in 2007 but, with over 19,500 subscribing customers in 2020 with an average annual subscription of $5,600 now give it a valuation of £1.1bn.

Next up was **Auction Technology Group**. It owns online sites Auction Trade Gazette and BBC's Bargain Hunt and its institutional backers include Jupiter and Blackrock. When the gavel came down £247m was raised against a valuation of £818m.

Synthetic cannabinoid producer **CBX** – 5% owned by David Beckham – was heavily oversubscribed for its £13m raise against a debut valuation of £100m. After an initial high, trading levels mellowed, and its market cap halved.

Cornish mining is back with the help of demand from high-tecs. **Cornish Metal**'s over-subscribed £8m raise on AIM recognised the associated potential in the tin mines for discoveries of copper, which is now in global deficit, and lithium. Significantly, humble tin itself has now been listed as key mineral by the US because there is no primary production in North America or Europe.

Cordiant Digital Infrastructure raised £370m from rising interest in data centres, telecom towers and fibreoptic networks AKA "the plumbing of the internet". It only just had first mover advantage, with investment trust **Digital 9 Infrastructure** also floating with a raise of £267m later in the quarter.

Changing retail patterns created a new unicorn in online card company **Moonpig**, which claimed 12 million customers last year. With an immediate uplift in share price the company was valued at £1.48bn and looks set for a FTSE 250 ranking. Direct-to-customer **Virgin Wines** also surfed the crest of the wave for onliners with a £13m raise.

London hosted Russia's largest ever retail IPO on its International Main Market. Nothing sold by **Fix Price** and its 4,200 budget stores costs more than £2.50, but an exception seems to have been made for its shares, which at close to £10 gave it a valuation of £5.97bn.

British bootmakers **Dr Martens** was valued at £4.54bn after Permira's seven years of careful stewardship, having bought the company for £300m in 2014.

Hong kong

Healthcare and biopharma IPOs are struggling to meet domestic investor demand.

Benefitting from the 2018 relaxation on pre-revenue listings, five companies raised a combined $US1.3bn in the first two months pf the year. Of these, **JOINN Laboratories** weighed in with a raise of $810m for its drug and pesticide evaluation company.

Kuaishou Technology raised over $5bn in its listing to help it compete against Tik Tok in the short video and live-streaming space. Kuaishou has just under half its main rival's 1.2 billion daily users but might have been surprised to find that it is now also competing against a new and similar service from its major investor, Tencent.

"Homecoming" Chinese companies uncomfortable with new audit rules in the US found an indifferent reception. **Bilibili**, the Chinese YouTube, raised $US2.6bn, following a $3.1bn raise a week earlier by **Baidu**, the Chinese equivalent of google, but both traded poorly. Investors will be alert to Beijing's growing dissatisfaction with the two companies' market dominance. Baidu, started by a 20-year-old student in 2009, now has 69% of all internet searches in China. Along with a dozen or so other tech firms, Baidu was fined in March for illegal monopolistic practices by the one-party state's regulator.

At the quarter end, these factors contributed to a marked wariness of tech, exemplified by data analyst **Bairong**'s negative day one trading for its $507m raise. The 16% dip in prices was the worst debut for a Hong Kong listing of its size for three years. All eyes are on the second quarter to determine whether this is a blip or a deepening trough.

China

Shanghai is playing its part in China's Silk Road programme. The SSE has signed cooperation agreements with 53 overseas institutions - the latest of which is the historic Belgrade Stock Exchange - for joint promotion, information and personnel initiatives. Its tech-focused STAR market has proved so popular that the exchange is now slowing the pace by tightening rules and lenthening the approval process. Meanwhile Shenzhen is merging its main and SME exchanges to offer a simplified platform and regulatory regime.

Brand recognition and perhaps nostalgia for lost youth drove an 8,000 times oversubscription for **Li ZiYuan**'s IPO. Its sweet milk product forms part of many Chinese childhood memories and accounts for 90% of its revenues. The $118m raise on the SSE valued the company at $682m.

In line with the push for mixed-ownership reforms, **China National Gold Group** listed in Shanghai and raised $138m. The country's largest jewellery maker has around 3,000 mostly franchised retail outlets.

Hopes for a strong Q2 rest in large part on the back of listings for artificial intelligence companies recently turned away from the US because of their state security links.

US

US exchanges saw their strongest quarter since the pandemic first struck.

The dominant theme was life sciences, but Chinese companies also made a strong showing despite the effective exiling of some of its techs as above. Notable among new listings was **Tuya Smart**, which achieved a $14bn valuation in its $915m raise. The company's cloud platform for the Internet of Things (connecting physical objects via the internet) operates in 220 countries and regions - more than the number of nations competing in the Olympics.

A good healthcare IPO never seems to get old, with anti-ageing cell therapy compmay **Longeveron** raising $27m. Although its last full year only showed $6m of revenue, the use of signalling cells from young bone marrow donors to treat Alzheimers and other conditions gave it a valuation of $180m.

With its zeitgeist hygiene products, **Diversey** was one of the few industrial companies to make a meaningful impact on the US IPO market this quarter. Its founder in 1923, who remained chairman for the first fifty-six years of the company's life, had wanted to choose a name that meant absolutely nothing. For present owners Bain, however, it seemed to mean a windfall from a valuation of $4.1bn.

Also of its time was online second-hand car sales company **ACV Auctions**. Its 2020 revenue of $208m was almost double that of 2019 and investors bought into an impressive valuation of $3.9bn despite losses.

Not all mammals add methane to the atmosphere. Energy unicorn **Montauk Renewables** takes it away by turning landfill gas into energy. Its NASDAQ listing saw it achieve a valuation of $1.2bn.

As per London, China and Hong Kong, the froth was whipped off by the end of the quarter, with companies typically trimming final pricing.

2021: A SPAC Odyssey

SPACs are not exactly the final frontier and enterprise has certainly been there in previous episodes. However, they are surging in popularity and now rival IPOs as a way of taking companies public. In this quarter's article we look at what SPACs are, why they are, and whether the Chancellor's work to get more of them on London exchanges is a shrewd move or cause for concern.

SPAC Exploration

A Special Purpose Acquisition Company – the financial artistry formerly known as a blank cheque company – raises a war chest by floating a shell on the exchanges. This shell then aims to buy a stake in a private business within two years, merge with it and by doing so confer upon it public company status.

At the point of floating, the investors in the shell company will usually have a good idea what type of business will eventually be acquired, but not which one specifically or at what valuation. Private equity is often simultaneously injected into the target acquisition, adding another layer of uncertainty to the dynamic. When a SPAC lists, faith in the management team is all that investors realistically have to go on.

This has resulted in high profile boards and promoters who already have a large following or inspire trust. Almost inevitable was Richard Branson who raised $500m last year, followed by ex-Credit Suisse boss Tidjane Thiam with a successful $300m raise this February. Sometimes the financial prowess of promoters is less immediately discernible than their recognition value. Former NFL quarterback Colin Kaepernick, for example, is launching a SPAC and balancing out his board with a film director. His $250m raise is, however, relatively modest compared to the larger ambitions of ex-baseballer Alex Rodriguez and basketball legend Shaquille "Shaq Attack" O'Neal.

Gravity

With IPOs already a tried and tested channel to the markets, what is behind SPACs' pulling power? Excluding the private equity which often coinvests at the time of the merger there are three parties to the transaction: the SPAC and the target and the original investor. Logically there must be an advantage for each.

For the SPAC itself the advantages are perhaps most clearly defined. Needing only to present an intention, the management team of a SPAC can list a shell company and build in substantial success fees in return for promotion and stumping up initial transaction costs. This fee generally equates to

20% of the acquired shares in a target for a nominal amount. For example, when financier Alec Gores' SPAC bought a stake in a mortgage originator last year with a valuation of $16bn, his management team's $25,000 investment morphed into shares in the acquisition worth $96m.

The target company may prefer to be taken public by a SPAC because it perceives the process to be less daunting than an IPO. Instead of jumping through regulatory hoops and producing a lengthy prospectus to be heavily scrutinised, it can be brought to market by an already-public SPAC. The acquisition still needs be approved by the SPAC's shareholders, but the business plan is generally forward-looking rather than based on historics as for an IPO. This difference is rather liberating for a fast-growth, pre-profit or even pre-revenue company. SPACs also allow companies to avoid the heavy hand of venture capital and its often-arbitrary exit timescales.

A commercial crunch point comes with the target acquisition's sure and certain knowledge that the SPAC is trying to acquire its stake at a discount for the benefit of its founders and investors. However, the number of companies signing up with SPACs suggests that avoiding IPO hassle carries a high premium, and that a pre-agreed discount is better than the pricing uncertainty inherent in roadshows and a debut on the exchanges.

For the retail investors there is an apparent disadvantage in placing themselves at a one-step remove from the actual investment. Committing money for up to two years to a third party that charges high success fees and letting it choose an acquisition that has not yet been proven on the markets looks generous. However, investors have the right to withdraw from a transaction they do not like, and they will have assessed the sponsors, who are usually financial experts or at least partnered by them.

By giving all shareholders an equal footing SPACs have a more egalitarian feel than IPOs, which often prioritise institutional capital over retail. Also attractive to retail investors is a SPAC's access to new and exciting companies that might not otherwise be approvable or market ready.

The Umpire Strikes Back

Last December, the SEC issued its first guidance notes - often a precursor to regulation - on the disclosure information to be provided by SPACs. Of particular concern was the potential conflict of interest sponsors may have in acquisitions, which links to previous concerns it has expressed on fees and incentivisation.

The SEC is not alone in worrying. Lloyd Blankfein, former Goldman Sachs CEO has stated that a SPAC "is not an IPO that carries with it a lot of diligence obligations… there are going to be things that go wrong." One common fear among industry insiders and regulators is that sponsors are not sufficiently incentivised to pay the right price for the target. The other is the rapidity of growth. Even Blankfein's successor David Solomon at SPAC-enabler Goldman has warned that the level of SPAC floats "is not sustainable in the medium term."

The actual performance of SPACs has also been called into question. Investment bank Renaissance Capital has analysed SPAC mergers since 2015 and concluded that only 31% actually delivered for investors. Although the last two years have shown some improvement, the overall median return was negative 29% compared to positive 47% for traditional IPOs.

Infinite Expansion

SPACs continue to proliferate regardless of past performance, with New York as their birthplace and spiritual home. They date back to the nineties when securities broker GKN was looking for a more investor-friendly structure than the blank cheque companies which acquired companies without reference to shareholders (and the roguish blind pool instruments of Wolf of Wall Street infamy). GKN hit the regulatory buffers and closed shop, but SPACs survived, receding during the dotcom boom with IPOs easy and plentiful but growing quickly again after the crash of 2008.

The vastness of SPACs is now dizzying. SPACInsider reports $65bn raised through shells in the first ten months of 2020: more than the sum of the preceding decade. Incredibly, that level was reached in just the first two months of this year and the average raise is now over $300m.

Alien

Until recently, London and Europe generally regarded SPACs as alien constructs and with tighter regulations hosted only six last year compared to New York's 248. But with SPACs now beginning to overtake IPOs in US raises, such restraint is no longer seen as an option.

Europe's richest man, LVMH boss Bernard Arnault, is flying the continental flag with a high-profile SPAC listing which Amsterdam's Euronext will host. The Netherlands is casting itself as Europe's SPAC central with a more relaxed regulatory environment when it comes to blank cheque vehicles.

London is looking to catch up fast. Lord Hill's report on the UK's receptiveness to listings – specifically including SPACs – has prompted the FCA to review its own rule on suspending SPAC shares during the merger stage, which has previously made such transactions impractical in London. Minds will be all the more focused after New York reportedly lured away Cazoo's proposed £5bn+ UK SPAC.

David Schwimmer, chief executive of London Stock Exchange Group (LSEG) has also contributed to the debate by stressing that "continuing to evolve the UK listings regime is key to providing flexibility". Former LSEG chief Xavier Rolet has been more forthright in stating that London should use the "golden opportunity" of a post-Brexit review on the listings regime to become a world leader in SPACs.

Joe Conte, EQ's Head of Corporate Action Products in New York commented, "SPACs evolved from being niche players unqualified to list in the US to dominating the equity capital markets. I can certainly see global expansion in the near future as being the next stage of their development."

Horizon

In February this year a SPAC filed with the SEC under the name Just Another Acquisition Corp. Such self-parody hints at restlessness and perhaps even embarrassment in the finance world.

But, as ever, there are competing forces at play which will determine whether SPACs maintain escape velocity or crash and burn. On the one hand there are Fed-printed dollars still to mop up, continued retail investor buy-in and FOMO from global stock exchanges. On the other hand, there are the beginnings of greater regulatory involvement and the financial establishment's wariness of anything propelled by retail investors, especially when celebrities need to be wheeled in to provide the fuel. Watch this SPACe.

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