UK IPO activity bounces back after Brexit delay; what does the future hold for the rest of 2019?

IPO Eye

An overview of the London Stock Exchange listings in Q2 2019

EY

Building a better working world

Market overview

Momentum picks up in London in Q2

Following a quiet start to the year, The London Stock Exchange witnessed a more active Q2 with 15 IPOs in the quarter collectively, raising just under £4bn.

The Main Market saw 10 IPOs which raised a combined £3.8bn whilst the Alternative Investment Market (AIM) had five new admissions in the quarter, raising just under £200mn.

Despite the quiet first quarter, the increase in momentum in Q2 has meant that on a cumulative basis, first half activity on the Main Market of 14 listings raising £4.2bn is just above the average level – for both funds and issuers – that we've seen over each half year since 2010.

AIM is a different story, with the reduced level of activity both in terms of funds raised and number of issuers, continuing a theme of reduced activity over the past 12 months.

The largest IPO in the period was the UAE based financial services company Network International Holdings plc – which raised £1.2bn.

Main Market

Ten listings raised:

£3.77bn

Largest IPO: **Network International Holdings**

Raised:

£1.2bn

AIM

Five admissions Raised:

£194mn

Largest IPO: **Loungers**

Raised:

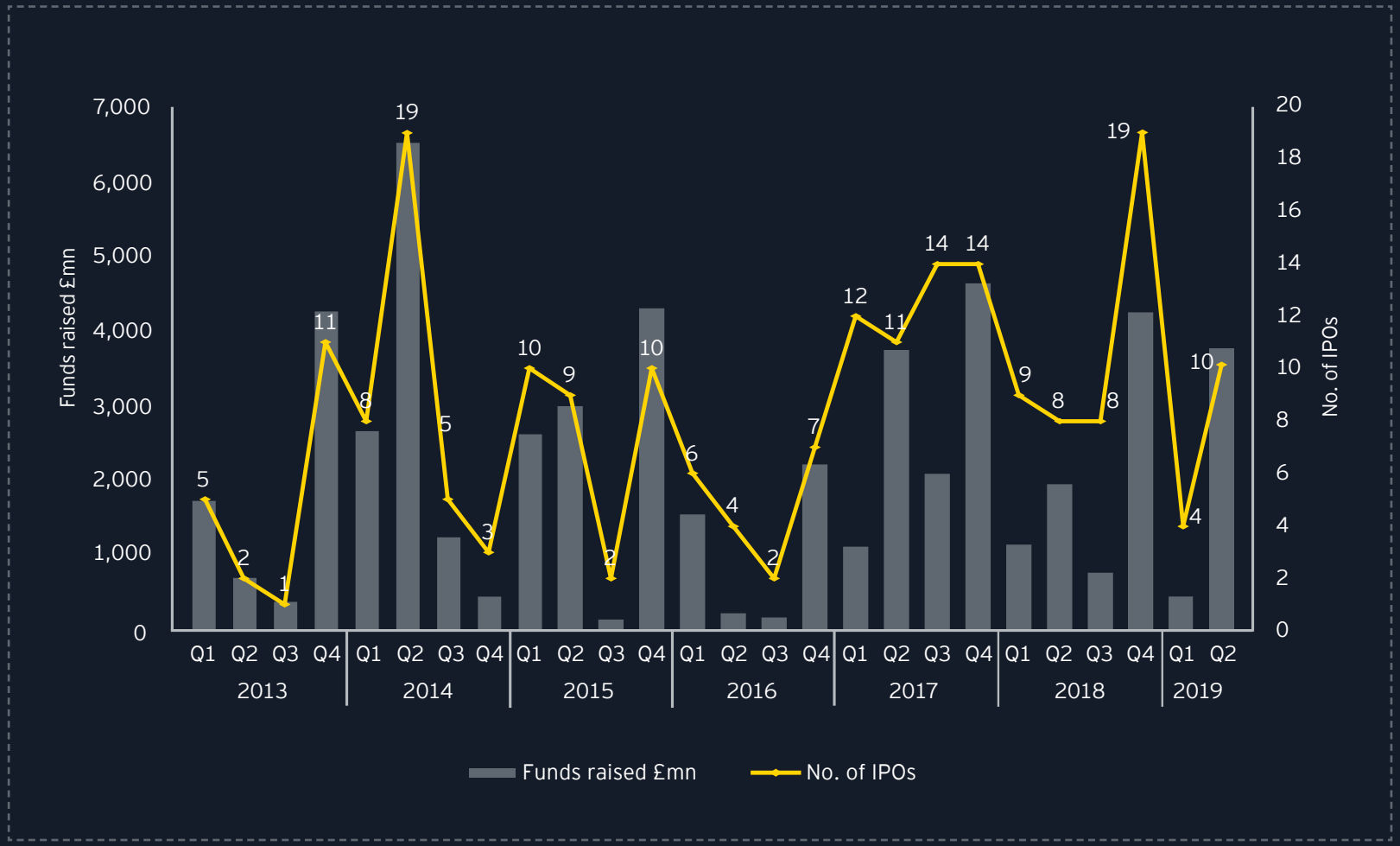
£83mn

Financial and support services were the dominant sectors in Q2, raising £1.96bn in total. London also hosted two of the top 10 global IPOs by funds raised in Q2.

IPO markets – historical performance

IPO main market

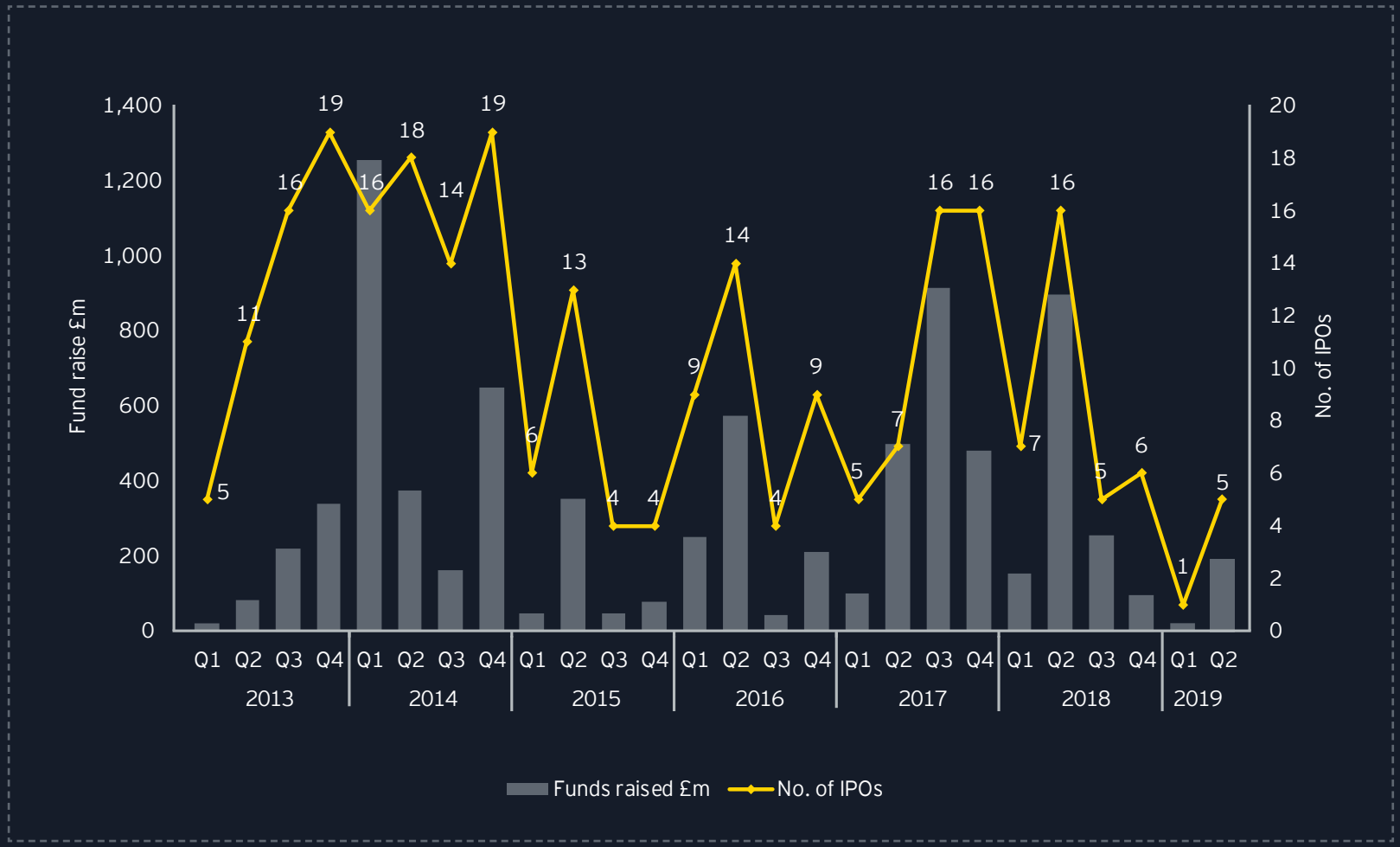
Main market – ten floats raised £3.77bn in Q2. The largest by funds raised was Network International Holdings plc – which raised £1.2bn.



IPO markets – historical performance

IPO
AIM market

AIM – five AIM admissions raised £194mn in Q2. The largest was Loungers plc raising £83mn.



Market overview

Travel was one of the strong sectors this quarter, where the private equity exit of trainline.com raised just under £1.1bn. This deal was one of the five IPOs this quarter with a private equity sponsor – the same number as in the whole of 2018 – and in total they raised £2.7bn. Watches of Switzerland was also another significant private equity sponsored IPO.

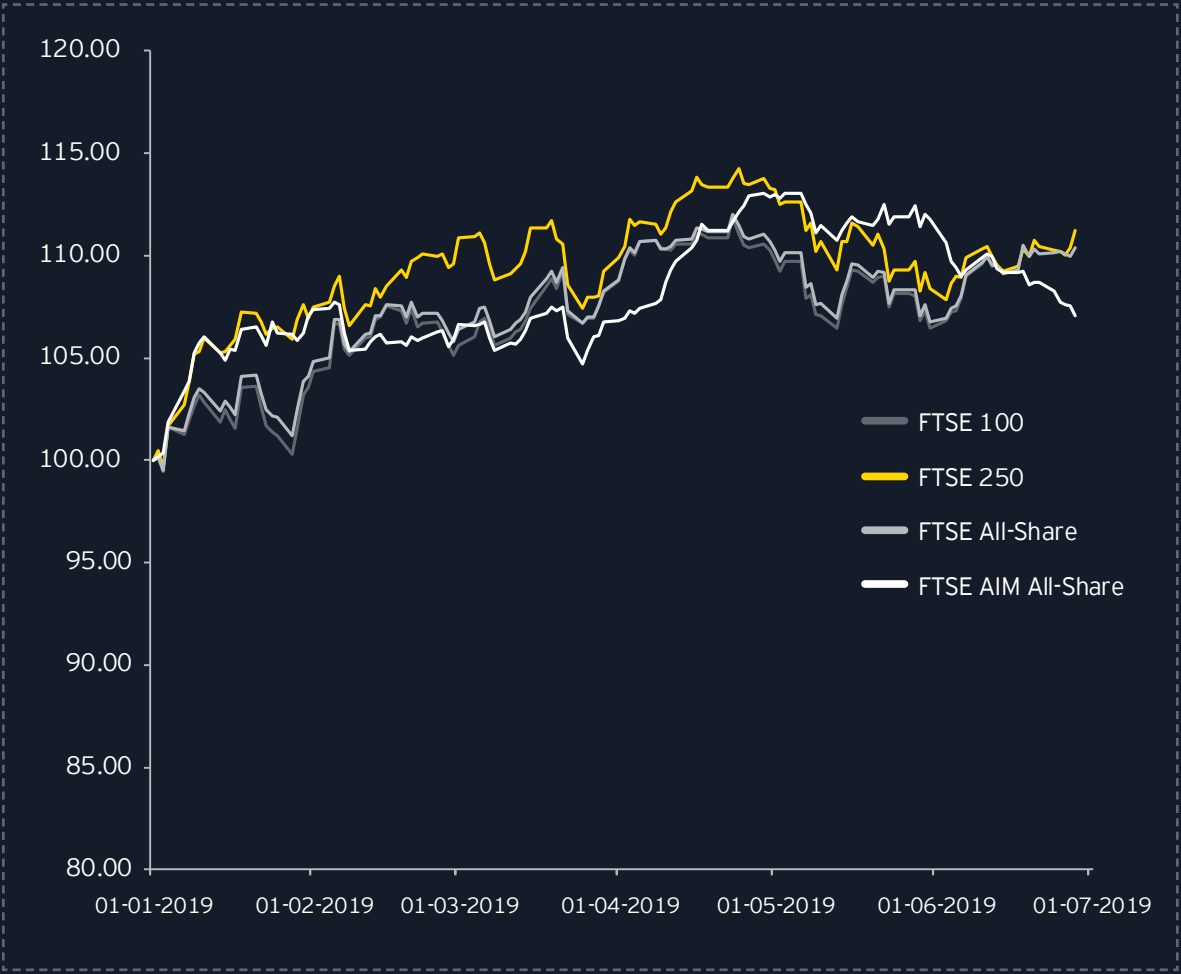
As in prior periods there has also been a strong market for existing issuers with 137 companies raising over £6bn in the quarter.

Cross border

In the Q1 IPO Eye we indicated that there was going to be an uptick in cross border activity in Q2 and this has been realised with 4 of the 10 main market IPOs being cross border, raising some £2.2bn.

Also in the quarter, adding to its international offerings, the LSE has established the London Shanghai Stock Connect Programme which allows Shanghai listed companies to issue GDRs in London and vice versa.

In June, Shanghai listed Huatai Securities Co Ltd became the debut issuer under this programme by issuing GDRs in London and raising over £1.3bn in the process, which due to it being already listed, is not include in our IPO statistics above.



Market overview

Aftermarket performance

Newly listed stocks across both Markets delivered returns of 15% on average above list price as at the quarter end, with only 2 of the 15 stocks listed below their flotation price at the month end.

Volatility

The rally witnessed in Q1 by the London markets has broadly continued, in line with the recovery of other Global equity markets as a result of the risk of interest rates increasing, diminishes. Concerns over global trade deals, Brexit and other geopolitical uncertainty has had an impact and continues to be a source of volatility for the markets as a whole.

Global IPO activity

Q2 2019 welcomed a number of much-anticipated, high-profile unicorn listings, but overall activity remains depressed with continuing ongoing geopolitical tensions, trade issues amongst the US, China and the EU, Brexit and the outcome of European elections dampening wider IPO sentiment.

Between April and June 2019, there were 300 IPOs globally with proceeds of US$58b. This is a 17% decrease in deals numbers but a 10% increase in proceeds from Q2 2018 due to the significant sums raised by some of the unicorns.

In terms of overall funds raised, unsurprisingly NASDAQ and NYSE IPOs accounted for 48% of funds raised in the quarter and over 20% of global listing numbers.

Technology IPOs raised 44% of overall proceeds reflecting the increase in Unicorn IPOs with healthcare being the next highest sector with 16% of proceeds.

In Q2 there was also an increase in private equity or VC sponsored IPOs with 47 out of a total of 300, mirroring the increase in IPOs with a financial sponsor that we've witnessed in the London markets.

Market listings

New Issues – Main market

Date of admission	Company	PE backed	Country of primary business	Sector	Market cap. on admission (£mn)	Funds raised (£mn)	Placing price (p)	Closing price (after first day of trading)	Closing price at QTR end (p)	Quarter end % change in price from IPO
10-Apr-19	Network International Holdings plc	Y	United Arab Emirates	Support Services	2,175	1,217.8	435	532.86	591.00	36%
16-Apr-19	US Solar Fund plc		United States	Equity Investment Instruments	158	152.9	79	79.48	81.21	3%
18-Apr-19	Blencowe Resources plc		United Kingdom	Nonequity Investment Instruments	1	0.3	4	4.50	4.50	13%
03-May-19	Bermele plc		United Kingdom	Nonequity Investment Instruments	2	1.0	1	1.50	1.62	62%
15-May-19	Finablr plc	Y	United Arab Emirates	Support Services	1225	306.3	175	160.40	150.00	-14%
28-May-19	Riverstone Credit Group plc	Y	United Kingdom	Equity Investment Instruments	79	78.9	79	80.72	79.20	0%
30-May-19	Watches of Switzerland Group plc		United Kingdom	Personal Goods	647	242.0	270	305.90	275.00	2%
05-Jun-19	Aquila European Renewables Income Fund plc	Y	United Kingdom	Equity Investment Instruments	138	136.1	91	89.50	93.00	2%
21-Jun-19	Trainline plc		United Kingdom	Travel and Tourism	1682	1,093.4	350	411.00	413.25	18%
28-Jun-19	Airtel Africa plc		14 African countries	Telecoms	3100	541.1	80	67.90	67.90	-15%

New Issues – AIM

Date of admission	Company	PE backed	Country of primary business	Sector	Market cap. on admission (£mn)	Funds raised (£mn)	Placing price (p)	Closing price (after first day of trading)	Closing price (at QTR end)	Quarter end % change in price from IPO
29-Apr-19	Loungers		United Kingdom	Travel & Leisure	185	83.2	200	216	218.00	9%
09-May-19	Distribution Finance Capital Holdings Ltd	Y	United Kingdom	Financial Services	96	19.8	90	105	132.50	47%
22-May-19	Induction Healthcare Group plc		United Kingdom	Health Care Equipment & Services	34	16.6	115	119.50	118.50	3%
29-May-19	essensys plc		United Kingdom	Software & Computer Services	73	28	151	174	192.90	28%
25-Jun-19	Argentex Group plc		United Kingdom	Financial Services	120	46.5	106	132.97	133.67	26%

Looking forward

With the delay to Brexit, domestic IPO candidates have pressed ahead with their listing plans. The steady stream of cross-border IPOs also signals that the UK capital markets remain an attractive option for companies looking for high amounts of available capital.

In Q3 and early Q4 2019, we anticipate the uptick of IPO activity in the UK to continue and IPO candidates that have been sitting on the sidelines to take advantage of pent-up investor funds; but volatility will increase as we head towards 31 October – the current date when the UK leaves the EU. Given there are also a number of political challenges between now and then, how these are overcome will also have a bearing on the markets.

In terms of which sectors will dominate in the second half of 2019, we'll have to wait and see how Brexit plays out. In a volatile world, investors may initially look to sectors with a strong track record, which would mean that we may see more traditional sector IPOs rather than technology companies and unicorns in the second half of 2019 and into 2020.

> "Increased levels of global uncertainty are no doubt impacting on the number and size of IPOs at this particular time. However, the markets are showing resilience and are far from closed, demonstrated by some household name unicorn listings in the US.

Scott McCubbin
EY UKI IPO Leader

Looking forward

Regulatory changes

There is an update to the EU prospectus directive, which will come into effect on 21 July 2019 and replace the previous prospectus regime. The principal changes which are designed to lighten the regulatory burden include: small and medium-sized enterprises (SME) being able to issue a shorter "Growth Prospectus" when listing on non-regulated exchanges; going forward, secondary offerings will be able to be made using a simpler prospectus; and more frequent issuers will be able to issue a universal registration document allowing for fast track approval of prospectuses.

Globally

The number of unicorns that came to the public markets in Q2 2019 suggests that IPO candidates are either finding an open IPO window – or choosing a window of their own making. There are several more significant IPOs and unicorns waiting in the wings, as well as a robust pipeline of small-and mid-cap IPOs across all regions. As such, we expect IPO activity to pick up in the second half of 2019 (H2 2019), even as geopolitical uncertainties and trade issues continue.

In terms of sectors, whilst technology and unicorn IPOs tend to get the largest share of media attention, investors are typically more interested in finding a balance between high growth potential and more traditional, less risky investments. We expect a number of health care companies to come to the Americas market, whilst industrials will likely dominate in Asia-Pacific. In EMEIA, we expect to see IPOs from technology-related and more traditional sectors.

Relevant programmes

EY Global IPO Centre of Excellence

Our Global IPO Centre of Excellence is a virtual hub which provides access to tools and knowledge for every step of the journey from finding out more about what going public means to considering capital raising options and addressing post-IPO risks. It provides access to all our IPO knowledge, tools, thought leadership and contacts from around the world in one easy-to-use source.

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IPO Retreat

May 2020

Looking to float in the next 12-36 months?

Our IPO Retreat helps CEOs and CFOs contemplating an IPO on one of the London markets. It gives unparalleled advice from key advisors and guest speakers who have been through the process, and provides invaluable networking opportunities. The IPO Retreat offers an invaluable opportunity to find out whether an IPO is the right growth option for your business.

To find out more, contact:
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Please visit **ey.com/uk/IPO** for more information on how we can help you on your IPO journey.

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