

ECM activity levels remain low

European Equity Capital
Markets Review – Q2 2019

Financial Advisory ●



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Introduction

After another positive quarter, the main stock markets closed one of their best first halves in the past years. The main issues that have affected markets during recent quarters are still present. In this scenario, ECM issuance levels are still very weak, making it the worst first half in terms of volume since 2012.

Our European Equity Capital Markets Review publication analyses capital markets and key aspects driving their performance. This report includes comments and practical insights into key areas that could impact the IPO market.

In this third issue, we look deeper into the different participants that a Company needs to involve in the process of building the perfect IPO team. We explore their importance and main functions within the IPO process as well as what companies could do to brief them, setting the right tone for the entire transaction.

Global stock exchanges had a positive start in the second quarter of 2019, with the main indices continuing the bullish rally experienced in the first quarter. The gains were made during April and June.

US indices suffered their worst May since 2010 when trade tensions between the US and China reactivated just when it seemed that both countries were about to reach an agreement.

Three main factors shaped the performance of the stock markets during the quarter: (i) the trade war between the US and China, (ii) the constant uncertainty surrounding the outcome of Brexit, and (iii) the monetary policy decisions of the ECB and the Fed. In the political environment, we also highlight the European elections on 26 May and the Spanish general elections on 28 April.

With these macro factors and volatility levels at 15.1 (similar levels to those of Q1 2019 and lower than the closing level of 2018 which was 25.4), European ECM

transactions have decreased in volume and number of deals by 8.3% and 7.5%, respectively, compared to the same quarter of 2018. Although there are still low issuance and activity levels, the second quarter of 2019 has been notably better than the first.

If we focus on IPOs, the second quarter of 2019 has been much better than the weak first quarter. Although with a sharp drop of number of IPOs compared to the same quarter of last year, the volume of this second quarter' IPOs has increased due to 5 mega IPOs priced above €1bn in the main European stock exchanges (Italian Nexi, UAE-based Network International listed in the UK, Swiss Stadler Rail, German Traton and the UK's Trainline).

Despite a positive first half of the year for the main stock exchanges and volatility levels, both the number and volume of European IPOs decreased in H1 2019 by 46% compared to H1 2018.

There have been no IPOs in Spain's main market in H1 2019 (the first time since 2012). With only 5 ECM transactions in Spain above €40m, the second quarter of the year has been weak. Compared to other H1 of recent years, the first half of 2019 has been the weakest since 2013.

In Q2 2019, there was no IPO activity in the Spanish Alternative Market (MAB), with no growth companies or REITs going public during the period.

We hope you find this report interesting and useful. Both ourselves and the wider ECM / IPO team at Deloitte would be delighted to discuss any aspect of this report with you.



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Market Performance

Q2 2019



-0.4%

IBEX 35
performance



1.5%

Stoxx Europe
600 performance



3.8%

S&P 500
performance



10.0%

VIX
performance

€/\$: 1.1373

1.4% in Q2 2019

€/£: 0.89578

4.1% in Q2 2019

Brent: \$66.55

-2.7% in Q2 2019

Stock markets have continued to benefit from an environment with low volatility and certain progress in some key issues...

Following a brilliant Q1 2019 for global stock markets, Q2 has also been positive with the US's main indices reaching new record highs during the first half of the year, outperforming European ones (the S&P 500 increased by 17.3%, the Nasdaq 100 increased by 20.7%, the Dow Jones increased by 14%, the Stoxx 600 increased by 14%, the FTSE 100 increased by 10.4% and the IBEX 35 increased by 7.7%). However, US indices suffered their worst May since 2010 after President Donald Trump unexpectedly announced plans to impose tariffs on imports from Mexico and escalated trade tensions with China (with main indices such as S&P 500, Nasdaq 100 and the Dow Jones decreasing by 6.6%, 7.9% and 6.7% respectively).

Moving to Brexit matters, Theresa May requested an extension period until 30

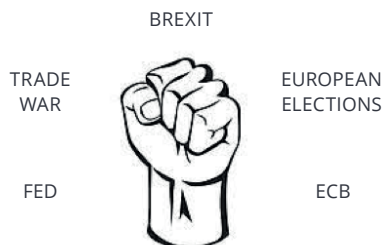
June but European leaders believed that delaying Brexit until 31 October would be a better option including a review at the end of June. On 24 May, Theresa May bowed to the intense pressure from her own party and named 7 June as the day she would step down as the Conservative party leader, drawing her three-year premiership to an end. During the last month of the quarter, the Labour party introduced a motion for parliament to block a chaotic Brexit. However, MPs rejected the cross-party effort by 309 votes to 298, in an attempt to prevent a Brexiteer Prime Minister from taking the UK out of the EU without a deal in October.

Another relevant topic when analysing the behaviour of the markets was the trade war between the US and China which seemed to be coming to an end. After long negotiations, the US Treasury Secretary and the Chinese Vice President said they had "productive" talks in Beijing on 30 April. However, at the beginning of May, Trump announced tariffs on Chinese products worth \$200bn. In response, China stated that it will impose tariffs on US products amounting to \$60bn. These events caused the stock markets to plummet in May.

Similar to Q1, central banks have played a crucial role in defining market trends. In April, the Fed maintained the course of its monetary policy after lowering the prospects for US growth for 2019 from 2.3% to 2.1% back in March. In May and June they decided to keep interest rates intact. However, in June they left open the possibility that policy loosening could happen before the end of the year depending on how the situation unfolds.

In April's meeting the ECB said that it would keep interest rates at their present levels until at least the end of 2019. In May, the European Commission cut its growth forecasts for the Euro zone from 1.3% to 1.2% and slashed its projection for Germany from 1.1% to 0.5% as it warned about escalating trade tensions. During the last meeting of Q2, the ECB pushed back the rate hike to the first half of 2020.

The US, Germany and Spain's 10-year bond yields reached record lows hitting the 2.007%, - 0.329% and 0.392% mark respectively at the end of the quarter. This was due to investors increasing their bets on a rate cut in the US and a generous loan package for banks in the EU after Jerome Powell and Mario Draghi said that they would respond as appropriate to the



...with the main stock indices closing a very positive first half of the year

risks posed by a global trade war and an economic slowdown.

Between 23 and 26 May, European elections were held. Despite the increase in Euroscepticism, the majority of pro-European parties won the elections in their respective countries.

In Spain, one month before the European elections, the Prime Minister Pedro Sanchez won the national elections without a parliamentary majority. The final policy of potential coalitions and therefore the composition of the government are yet to be defined.

During Q2, the price of Brent oil decreased from \$68.4 to \$66.5. On 12 June, the price of oil fell to its lowest in the last five months (\$59.97) after government data showed a large increase in US crude stockpiles and concerns that the US-China trade war could dent global economic growth. Since then, the price has recovered driven by OPEC members signaling their intention to keep supplies constrained as well as the rise in tensions between the US and Iran.

The Euro has appreciated by 1.4% against the US Dollar over the last three months. The Pound Sterling, which was among the best-performing currencies in the world

during Q1, depreciated in Q2 by 3.9% and by 2.6% against the Euro and the US Dollar respectively due to the more Eurosceptic profile of the possible candidates who will substitute Theresa May and deal with the ongoing Brexit uncertainty. The Yen, acting as a safe-haven asset, closed the second quarter with April 2017 maximum levels against the Euro.

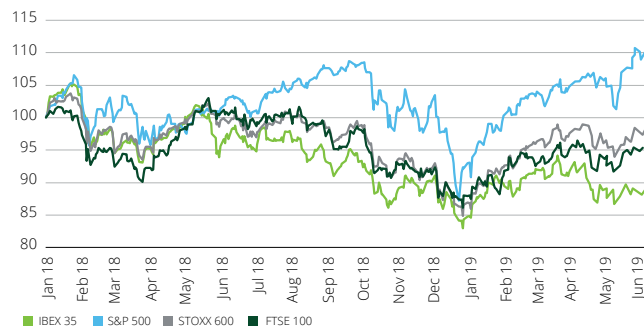
In Q2, the CBOE Volatility Index ("VIX") had a similar performance to Q1. It has been stable with a slight peak in May when the trade tensions between the US and China heightened.

VIX Index



Source: Eikon as of 28 June, 2019.

Main Indices Performance (b. 100)



Source: Eikon as of 28 June, 2019.

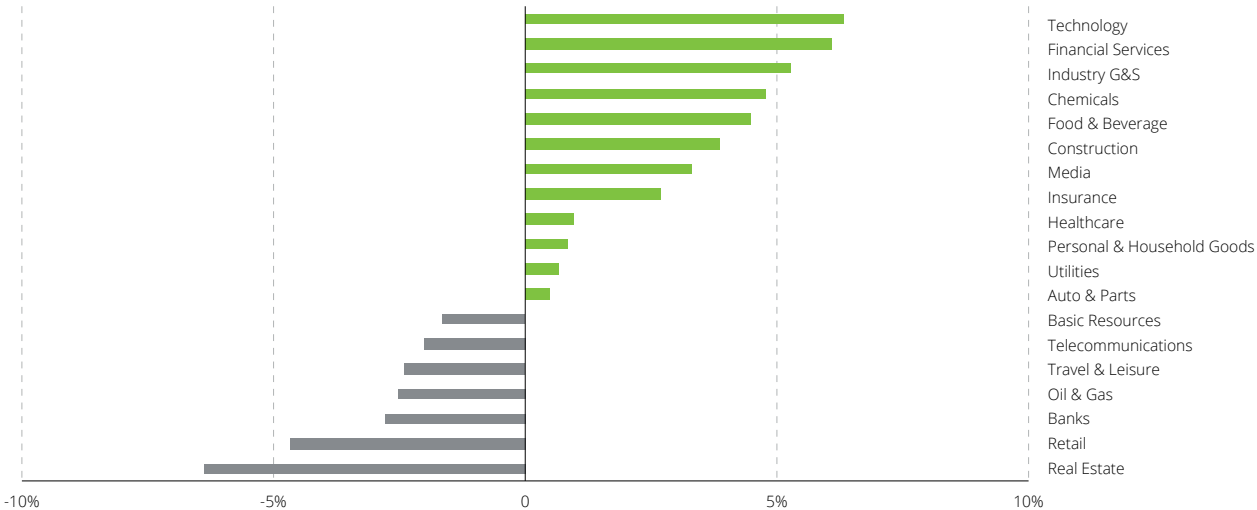
Although during Q2 performance has been dispersed, all Stoxx 600 sectors except one continued to show gains in 2019

During the second quarter, 63% of the Stoxx 600 sectors have increased and 37% have decreased. Among the sectors that have had a positive performance, the tech sector with Altran Technologies having a strong upside (42.7%) after Altamir and Apax Partners sold their Altran stake to Capgemini. Another sector with a strong performance was financial services, in particular stock exchanges companies had an outstanding performance (Euronext increased by 17.8% following the acquisition

of Oslo Børs and the London Stock Exchange increased by 15.5%). The banking sector was strongly penalised by monetary policy measures implemented by central banks (Natixis shares tumbled as concerns regarding H2O Asset Management, one of its subsidiaries, grew). Another sector that has suffered losses has been real estate, as German REITs decreased (e.g. Deutsche Whonen -25.3%) after Berlin proposed a five-year rent freeze.

One of the worst sectors during this quarter (as well as the previous one) was travel & leisure. A profit warning was issued by Easyjet (due to macroeconomic uncertainty and Brexit driving weaker customer demand) and two were issued by Lufthansa due to intense competition in the sector which knocked European airline stocks and added to the profit warnings issued by Ryanair and Norwegian in Q1 2019.

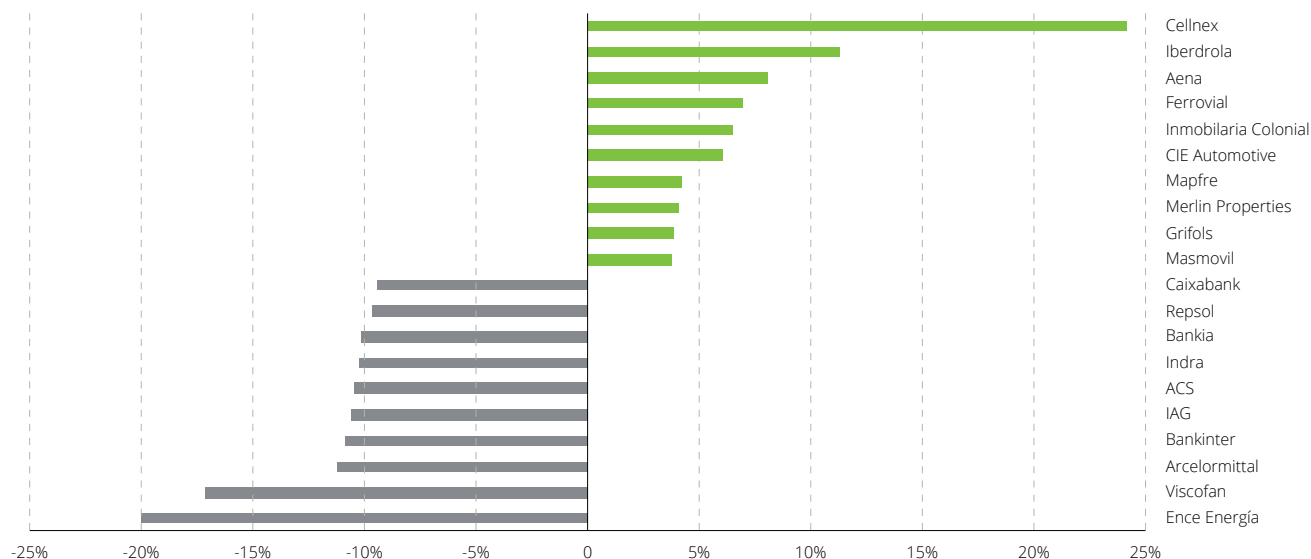
Q2 2019 Stoxx Europe 600 Sector Performance



Source: Bloomberg. Includes Stoxx 600 sector groups' returns from 29 March, 2019 to 28 June, 2019.

Most of the trends seen in the first quarter have been repeated in Q2 2019

Q2 2019 IBEX 35 Performance



Source: Bloomberg. Shows best and worst performers of the IBEX 35 from 29 March, 2019 to 28 June, 2019.

In line with the previous quarter, we have found similarities on both sides (best and worst performing) of the table.

40% of IBEX 35 stocks traded up during this quarter. 66% of IBEX 35 stocks had a positive performance during the first half of the year.

Similar to the last quarter, several Spanish banks are among the worst performers of IBEX 35 (Caixabank, Bankia and Bankinter). Other stocks that were among the worst

performers were IAG (in line with other airlines listed in Europe), Arcelormittal (cutting production in Europe) and Ence Energía (after reporting a 42% decrease in its Q1 net income).

As for the companies with the most gains over the past three months, we have identified repeated positive performance from Siemens Gamesa, Aena, Ferrovial and Cellnex. The telecommunications firm continues to expand its business after paying €2.7bn for 3 tower deals in

France, Italy and Switzerland and acquiring commercial and operational rights for a 20-year period on 220 towers for \$127m.

Iberdrola also stands out after hitting record highs. It announced the flotation of its Brazilian power subsidiary Neoenergia, registering its Brazilian IPO prospectus on 6 June. Its shares jumped by 8.4% in the first day of trading.

ECM Review



The UK had the highest number and volume of ECM deals



The computers & electronics sector became the most active industry for IPOs



-8.3%

The slowdown of European ECM volume vs Q2 2018

16

European IPOs above €100m

0

IPOs priced in the Spanish Main Market



24%

An increase in Q2 2019 European IPO volume vs Q2 2018

The European ECM volume is still far off that of previous years

ECM activity continues to be weak. There was a recovery in the last quarter compared to first quarter of 2019, however, due to the current environment, potential issuers are taking a “wait and see” approach. There have been some positive signs in the IPO market with the comeback of mega IPOs leading to an increase in volumes. However, if we look at the number of IPOs, the figure is still very poor.

In Q2 2019, European ECM volumes decreased by 8.3% compared to the same quarter of the previous year from €44.1bn to €40.4bn. Although the number of IPOs in Q2 2019 has decreased by 35.6% compared to Q2 2018, the volume increased by 24%

due to the 5 mega IPOs priced. A total of €25.1bn was raised in 316 follow-ons, which is a 19.9% decrease in volume and 2.8% decrease in number compared to Q2 2018. €3.9bn was raised via the issuance of 20 convertible bonds, pretty much in line with the second quarter of 2018.

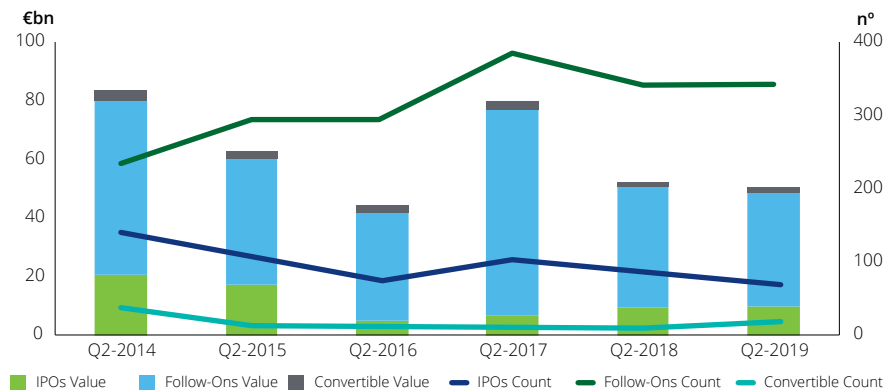
The UK market remains the market with the largest number of deals and volume issued despite the uncertainties regarding Brexit.

The computers & electronics sector has been the most active European ECM sector both by volume and number of deals this quarter. Four of the seven largest deals of this quarter are in the computers & electronics industry: Nexi,

Network International and Trainline IPOs and German Infineon Technologies €1.5bn ABB to partly finance the purchase price for the planned acquisition of Cypress Semiconductor Corporation

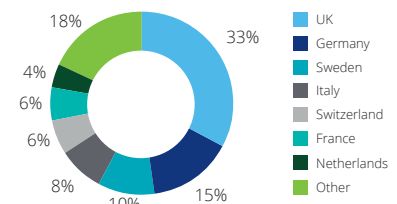
Spain experienced a quiet quarter in terms of ECM issuance above €40m with only 1 rights issue launched by Vivenio Residencial (a SOCIMI incorporated in the Spanish MAB), 2 accelerated bookbuildings (Fluidra and Árima) and 2 convertible bonds (Cellnex and Sacyr).

European Q2 ECM Deals since 2014

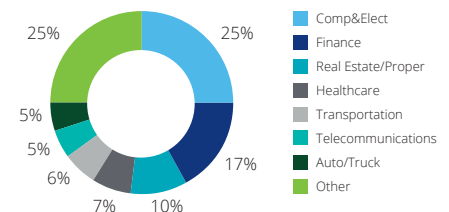


Source: Dealogic as of 28 June, 2019.

ECM Europe Q2 2019 by Country



ECM Europe Q2 2019 by Sector



Source: Dealogic as of 28 June, 2019. Includes all European IPOs, Follow-Ons and Convertibles.

Large IPOs somewhat compensated the significant decrease in the number of European IPOs in Q2 2019

H1 2019 has been the weakest first half in terms of IPO volume since H1 2013. In Q2 2019, total European IPO volumes amounted to €11.5bn, which is a 24% increase compared to Q2 2018. The number of IPOs priced has been very low with a 35.6% decrease compared to the previous Q2, with only 56 IPOs crossing the finish line.

Figures were significantly low despite the positive stock market performance and lower volatility levels in H1 2019. There have been no IPOs in Spain's or France's main markets during the quarter and in Germany there has only been one, Traton (€1,350m).

The German main market did not see any IPO during the first quarter of the year.

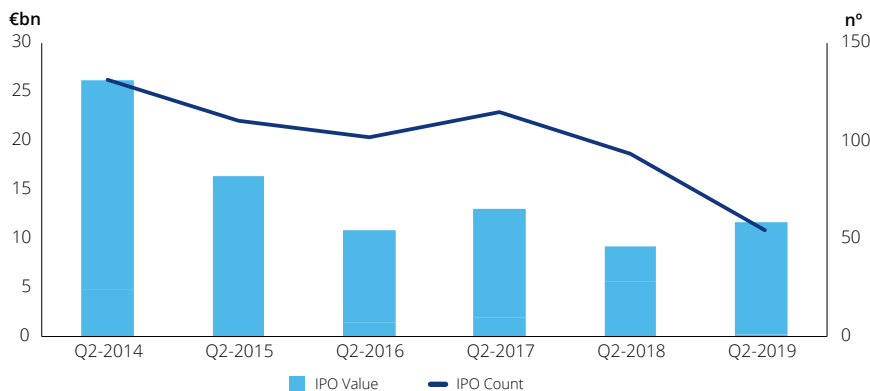
Of the 5 mega IPOs that were priced over €1bn, 2 were priced in London making the London Stock Exchange (LSE) the market which raised the most IPO proceeds in Q2 2019, amounting to €4.5bn.

In terms of sectors, the computers & electronics is the clear leader as a result of the three mega IPOs priced in Q2 (Nexi, Network International and Trainline). The Italian payment services group, Nexi, was the largest European IPO this year, followed by two other major listings in the sector, (i)

Network International earlier in the April and (ii) Adyen last year.

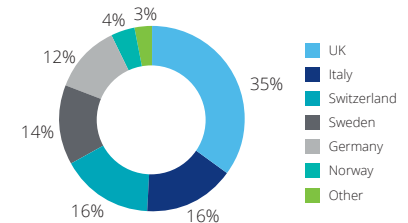
In Spain, there were no main market IPOs priced during the first half of 2019, making it the worst start to a year since 2012. There was no activity in the Spanish Alternative Market (MAB), with no growth companies or REITs listing during the period.

European Q2 IPOs since 2014

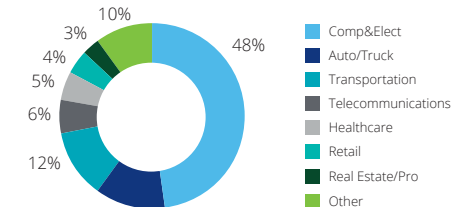


Source: Dealogic as of 28 June, 2019.

European IPOs in Q2 2019 by Country

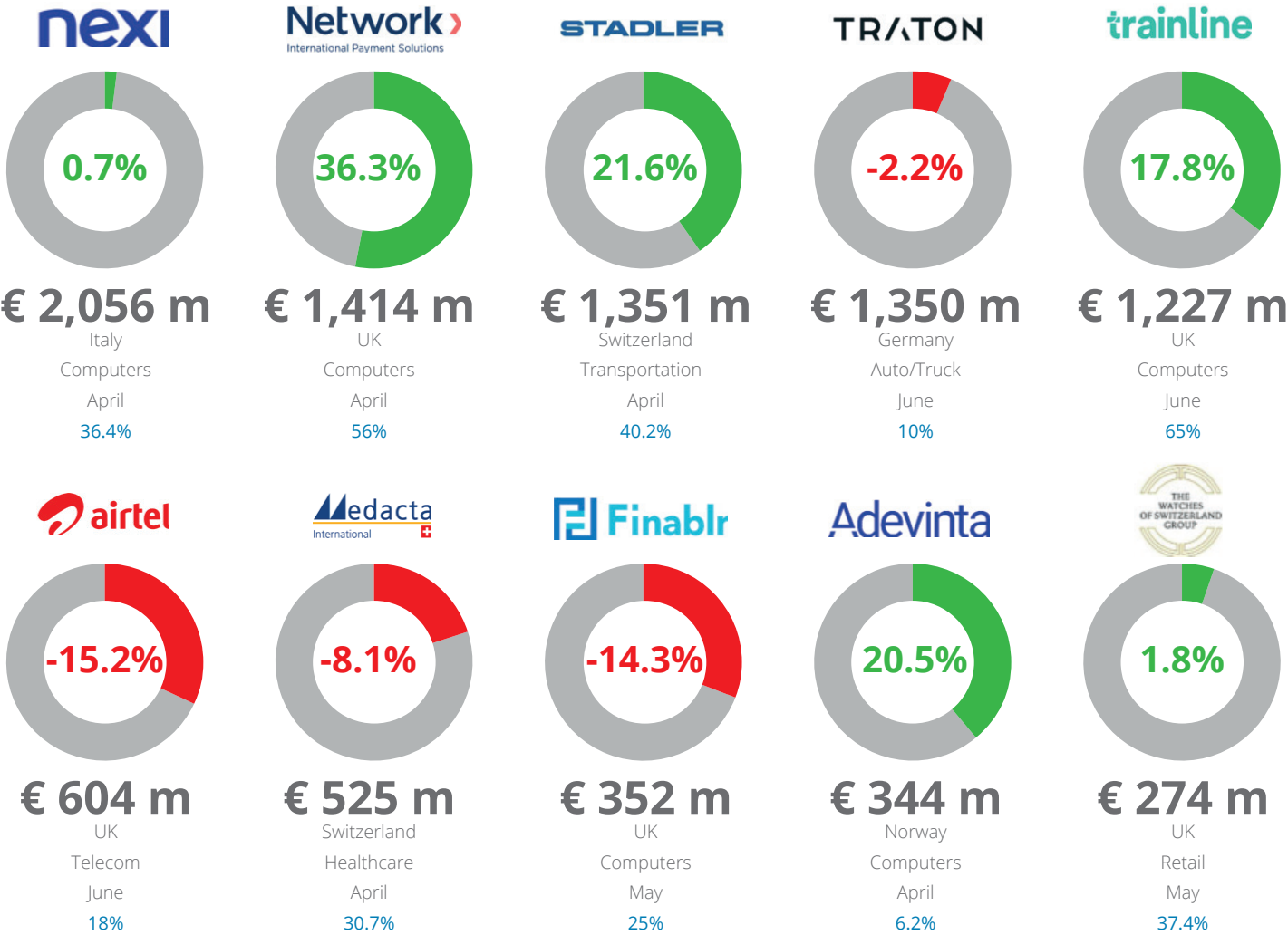


European IPOs in Q2 2019 by Sector



Source: Dealogic as of 28 June, 2019. Includes all European IPOs.

Mega IPOs significantly increased Q2 volumes, making the UK the most active exchange





ECM Hot Topic: The IPO Team

Having the perfect IPO team with complementary strengths to execute a successful listing

Choosing the right team to advise a company during the IPO process, preparing it to meet regulators and investors' expectations and to sell its stock at the right price is imperative to ensure a successful listing. This decision is one of the key milestones of the IPO journey

An IPO is a transformative event for a company and a successful execution requires expert support and guidance from a group of advisors that will accompany management throughout the IPO journey.

Due to the complexity of the process, creating the right IPO team is paramount. This team should comprise key members of the company, that can make prompt decisions, and an army of external advisors that will advise during the IPO process (some of whom will be involved in the entire journey and others who will only be in specific phases of the process).

Finding the right team is not always easy and requires a detailed exercise that should take into account the deal size,

the potential listing venue (i.e. Spain or abroad, Main Market or MAB) and the advisors' capabilities and credentials in the appropriate sector.

Key advisors that are likely to accompany the company throughout the process include Financial Advisors, Underwriters (lead positions within the syndicate, i.e. Global Coordinators and Bookrunners), Issuer's Counsel, Underwriter's Counsel, and Auditors.

In addition, there are a handful of other external participants that will temporarily be part of the team such as Financial Public Relations, Financial Printers, Roadshow Consultants, Remuneration Consultants, an Agent Bank and a Stabilization Bank.

Although not part of the IPO team, the regulator (CNMV, BME & Iberclear) will also play a crucial role in the execution of the IPO.

The involvement of so many parties carries complexity to the already challenging process. Advisors' interests may at certain stages not be fully aligned with each other and/or with the company and its shareholders, therefore coordination between the parties and a substantial commitment of internal resources is imperative.

A variety of advisors will play a crucial role and have various responsibilities in the IPO process

The success of the IPO process and performance of the stock post transaction depends in part on the strengths of the IPO team and their performance during the preparation and execution of the IPO. Engaging the most qualified experts is paramount

Responsibilities of key IPO advisors



Financial Advisor

- Coordinating the **company's preparation**
- Transforming the **equity story into a strong investment case**
- Providing **strategic advice** throughout the IPO process including (i) **IPO team selection**, (ii) **Deal structure**, and (iii) **Pricing and allocation**
- Supervising the IPO team and its performance



Other advisors

- Financial Public Relations
- Financial Printers
- Roadshow Consultants
- Remuneration Consultants
- Agent Bank
- Stabilization Bank
- Tax advisors



Auditor

- **Audit of the financial statements**, which is required for the prospectus
- A Review is required for **interim financial statements**
- Preparing **Comfort Letters**
- Carrying out a **Financial Due Diligence**



Underwriters

- **Developing the equity story** and selling messages for the IPO
- Preparing **marketing materials**
- Providing **research reports** for potential investors
- **Marketing the deal and distribution** of the shares
- Providing advice on **pricing and allocation**



Issuers & Underwriters' Counsel

- Preparing the **underwriting agreement** and other legal documents
- Carrying out a **legal due diligence**
- Preparing a **draft IPO prospectus**
- Providing **legal opinions** throughout the process



Selecting the right bank syndicate - with robust expertise, an excellent track record and complementary skills

When selecting bank syndicates, it is crucial to evaluate them objectively based on the 4 key aspects to ensure real effectiveness. In most cases, it is difficult for banks to fulfil all 4 aspects simultaneously, therefore, choosing those with complementary skills is key to the success of the transaction

The bank syndicate selection is one of the most important decisions when building the IPO team. The syndicate will be larger or smaller depending upon the deal size. For example, the average number of syndicate banks involved in Spanish Main Market IPOs in the last 5 years has been 7 banks including Global Coordinators, Bookrunners, Co-leads and Co-managers. Bank in junior roles are usually added to provide research and extra distribution power.

An objective analysis of capabilities based on the 4 pillars should be the basis for shortlisting banks for a Request for Proposal (RfP) process. The company may include their current relationship with banks into the decision mix. This should be followed by the creation of a tailored RfP with the objective of gathering as much intelligence as possible. This information together with the face to face

interview with the investment bankers and potentially its sales captain and research analysts, should form the basis to make a decision regarding the syndicate composition.

Other aspects that need to be taken into account when deciding the syndicate size include the available fee pot, as it is paramount that the banks feel properly compensated while creating healthy competition through the potential incentive fee.

Four pillars to test investment banks when selecting the IPO syndicate



The Kick-Off meeting – setting the tone for the entire IPO process

Following the IPO team selection, it is customary to kick-off the transaction with an all parties meeting to discuss the IPO Roadmap. Companies may use this opportunity to present themselves in detail to ensure that the IPO team fully understands the business and becomes motivated about the deal to come

In the Kick-off meeting all of the main parties of the IPO team are represented including the financial advisor, legal counsel, auditors and Global Coordinators / Bookrunners. At this early stage in the transaction, banks with junior roles such as Co-Lead managers are often excluded and then brought into the deal closer to the analyst presentation.

In these meetings, companies often give the IPO team a full overview of the business in the form of a “Management Presentation”. This is a key document as it allows banks to start the equity story refinement, early-look and analyst presentations while providing the issuer counsel with sufficient information to start drafting the prospectus. The information contained in this document will also help to kick off the formal due diligence process that is required for an IPO.

The Management Presentation is usually a large document covering a wide range of areas of the business including the following:

- CEO elevator pitch
- Company overview
- Market positioning
- Financial track record
- Business plan and forecasts

Due to the importance of this presentation, management preparation is key. This includes working on the equity story ahead of the selection of advisors and getting the business ready to comply with all regulatory and investor requirements. This will allow the Company to present a strong story to investors, maximising value for shareholders while minimising execution risk.





Final Thoughts

Similar to the last quarter, Brexit, trade talks, monetary policies and macroeconomics have been the main topics driving stock market performance and ECM issuance. Although stock markets have closed the best first half of the year in recent years and volatility has maintained at low levels, uncertainty regarding these topics has resulted in a significant decrease in ECM activity.

As we already discussed in our previous report, this positive sentiment in stock markets was not transferred to the European ECM market, with investors and companies still wary of coming to market to raise liquidity and/or cash out. Potential issuers have been unwilling to test the market with potential investors likely to be more selective in terms of equity stories and be more price sensitive.

H1 2019 European ECM issuance volume was the worst start to the year since H1 2012, with 692 transactions pricing and raising a total of €67bn. Only 82 IPOs came to market raising €12.2bn which is a 46.3% decrease compared to H1 2018. ECM issuances in the Spanish market have been weak with no IPOs coming to the main market. The last time we saw no IPOs in the Spanish main market during the first half of the year was in H1 2012.

Despite these disappointing ECM figures, certain companies are actively working on their deals with plans to come to European markets in 2019. The fulfilment of this pipeline will depend on future market conditions, volatility and investor appetite. One clear difference compared to Q1 2019 is that during Q2 2019 we saw 5 mega European IPOs (above €1bn each) successfully pricing.

Spanish ECM issuance levels were also poor, having been affected by global market conditions. The Spanish political environment has also helped to explain this lack of ECM activity. Since the beginning of the year, the possibility of having general elections has been in the headlines. Finally, the election took place on 28 April but the new government has not yet been established.

Outside of Europe, and following Lyft's IPO in the US, there have been three major tech-related debuts in the US during this second quarter of the year: Pinterest launching a €1.45bn IPO in April with its shares trading up by 43.3%, Uber with its IPO of more than €7bn in May closing the quarter 3% higher than its IPO price and Slack's direct listing in June with an astonishing first day rally of 48.5%.

In the upcoming weeks Brexit and trade war will continue to drive market sentiment. Therefore news such as the recent G20 summit where good signs of progress (such as lift of Huawei's ban) were shown in regards with the Chinese and American trade dispute. The election of UK's Prime Minister will also have impact in the global stock exchanges as the new appointment might imply higher probabilities for a hard Brexit.

About Us

The Deloitte IPO Advisory group is an end-to-end service provider that uses a comprehensive framework to advise and prepare companies for their initial public offerings and beyond. This can include analysing a company's strategic alternatives, becoming "IPO ready", helping to coordinate the overall process and providing independent capital markets advice throughout the entire process.

The group comprises of a dedicated team of professionals from Equity Capital Markets, Corporate Finance, Valuation, Financial Reporting, Risk and Corporate Governance Advisory, Tax and Legal, and Consulting backgrounds.

Deloitte's leading IPO Advisory team provides issuers with independent advice related to key IPO success factors including: equity story, valuation, market timing, pricing strategy and tactics, underwriters' and other participants' selection, roadshow and investor targeting strategy, to name a few.

For further information on our services contact one of our Deloitte IPO advisory professionals.



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