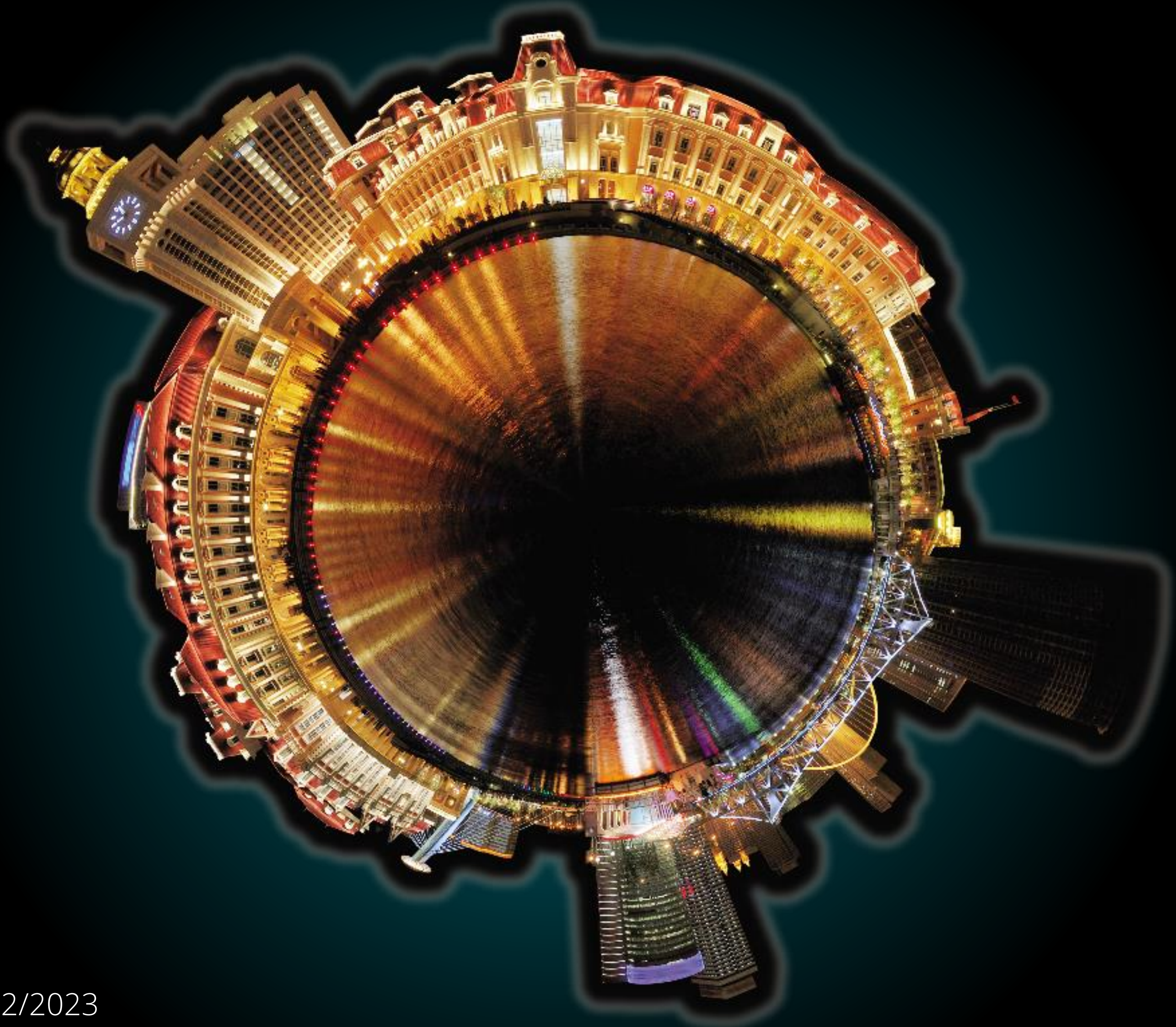

Frontiers of growth

UK ECM update | Winter 2022/2023

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Our team and services | Deloitte Equity Capital Markets

Welcome to the 13th Deloitte UK ECM update

2022 was a challenging year for global equity capital markets – with the strong IPO pipeline we saw at the start of the year being put on hold leaving only a handful of London IPOs as investors focused on shoring up their existing assets in response to the macroeconomic shocks and volatility which continued throughout the year. This picture looks set to improve in the year ahead, with the markets having adapted to the new circumstances.

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Welcome to this thirteenth edition of the Deloitte UK ECM update. Since 2016 our update has been providing commentary and analysis of the performance and trends in London's equity capital markets, together with consideration of current hot topics in ECM.

After a record year in 2021 for UK equity capital markets – including 126 IPOs in London – 2022 was a challenging year with many global markets reaching bear territory. This was primarily driven by global macroeconomic and geopolitical headwinds: high inflation, interest rate uncertainty, recession risk, supply chain challenges, and the events in Ukraine. These were further exacerbated in the UK by the political uncertainty which brought us the succession of three Prime Ministers in as many months.

These headwinds, and resultant uncertainty throughout 2022, created a challenging environment for companies seeking to IPO. This uncertainty is evidenced by our new UK Financial Stress Index (FSI), a monthly measure of stress in UK financial markets developed by our Economics & Markets Research team.

Whilst IPOs were challenging in 2022, they were not impossible. The most notable London IPO in the second half of the year was North Sea oil & gas business, Ithaca Energy. In this issue, we continue our series of interviews, speaking with the Executive Chairman of Ithaca Energy, Gilad Myerson, who reflects on the listing experience and discusses the impact of the broader economic and geopolitical context.

We follow that with a Q&A on IPO readiness, and what companies who are considering an IPO in the coming 12-36 months can productively be doing during what remains of this subdued market environment to develop a compelling equity story and position themselves to gain early mover advantage when the market windows reopen.

Of particular note is our newly-launched IPO Scanner, a free and easy-to-use tool, enabling founders, CEOs, and CFOs of businesses at the initial stages of considering an IPO to assess the readiness of their company not only for the IPO process, but also life as a listed company.

Following on from our interview with Lord Hill in our 11th issue, in this issue we interview Mark Austin, Independent Chair of the UK Secondary Capital Raising Review, which has made recommendations on how further capital raising processes by already-listed companies could be made more efficient. He expounds on his experiences in leading this review, the objectives it set out to achieve, and how it has been received by the market.

If 2022 was a difficult year for IPOs, for SPACs seeking to consummate an acquisition and complete a "de-SPAC" the environment was no better. We review what appears to be the tail-end of the SPAC IPO wave of late 2020 and early 2021, which is now resulting in a spiralling number of liquidations as the SPACs in the market reach the end of their two year time horizon to complete an acquisition. We also consider the ongoing future for SPACs around the world.

We also address the topic of US vs UK listings with the London Stock Exchange's Neil Shah and Chris Mayo. They tackle some of the myths and answer our questions, including key considerations for companies to achieve their target valuation, the extent to which valuation premiums are reflected in markets, and when to consider dual listings.

Finally, we take a look at the geographical and sectoral 'frontier markets', considering the opportunities and risks posed, both for investors and the businesses operating in them.

We hope you enjoy this thirteenth edition of the Deloitte ECM update.

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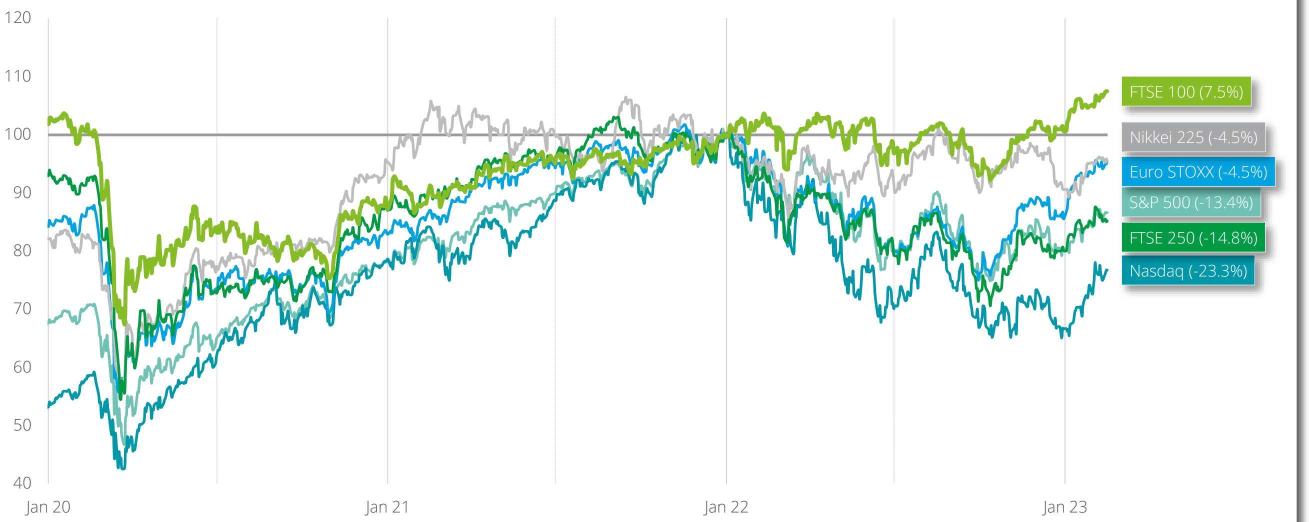
Uncertainty persists in global markets | UK ECM market update

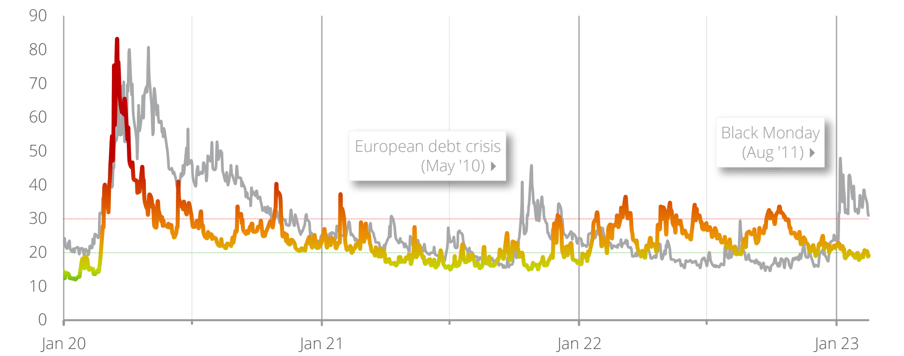
The successive geopolitical and macroeconomic shocks throughout 2022 led to a bear run across many global markets as volatility remained elevated throughout most of the year. In contrast with previous years, the FTSE 100 proved the strongest performer and only major global index to close out 2022 in positive territory. That said, 2023 has been off to a strong start for equities globally, including successive all-time highs for the FTSE 100 during February.

Performance of selected global indices since 2022
1 Jan 2022 = 100



Source: Refinitiv Eikon (updated 15 February 2023)

Cboe Volatility Index (VIX)
2020-2022 vs. Global Financial Crisis (Aug 2008)



Source: Refinitiv Eikon (updated 15 February 2023)

Globally, the Nasdaq was one of the worst performers, losing a third of its value through the course of the year, although there has been a notable recovery during January 2023. There was a regression to mean across a number of sectors following the exceptionally high valuations achieved during the pandemic and 2021, although most major global markets remain ahead of 2019 levels. This was particularly notable in *Technology* – including 'Big Tech' which had driven much of the post-pandemic growth.

Unsurprisingly, *Energy* and *Basic Resources* were the strongest performing sectors of the year, as Western economies sought to shore up energy supplies. Most of the key performing sectors during 2022 had taken a hit during the early stages of the pandemic.

The Cboe Volatility Index (VIX) remained elevated throughout most of 2022, reflecting the macroeconomic and geopolitical uncertainty, and only settled to more stable levels in the latter months of the year, which has so far continued into 2023.

Price performance of FTSE 350 and selected sectors	2022	2021	2020	Jan 2020 – Feb 2023
FTSE 350	-2.4%	13.4%	-13.6%	2.0%
Energy	39.6%	25.0%	-43.4%	11.3%
Basic Resources	19.4%	11.9%	13.7%	49.4%
Health Care	11.6%	17.2%	-15.0%	13.7%
Banks	8.3%	17.8%	-32.6%	-1.9%
Food, Beverage & Tobacco	2.2%	16.9%	-10.9%	4.4%
Utilities	-2.7%	23.3%	-9.7%	12.2%
Media	-6.0%	20.9%	-13.6%	6.1%
Technology	-19.9%	13.8%	-12.7%	-14.3%
Industrial Goods & Services	-16.0%	22.6%	-0.7%	10.9%
Construction & Materials	-18.4%	19.8%	-2.3%	11.0%
Telecommunications	-25.2%	1.6%	-21.1%	-31.0%

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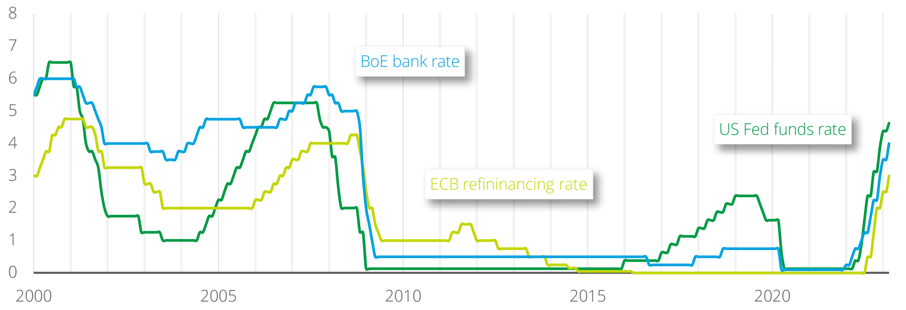
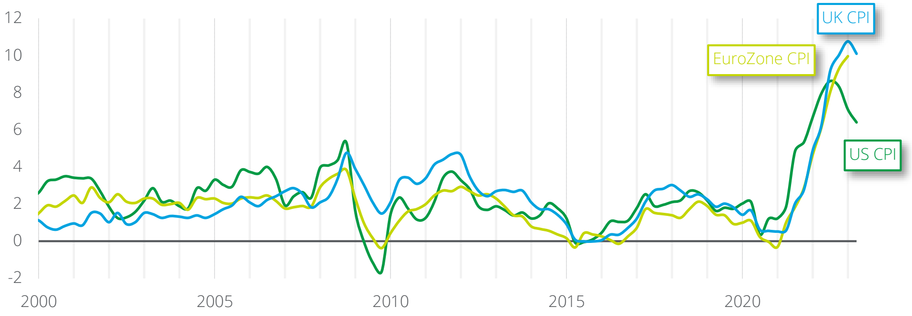
Macroeconomic and financial context | Selected global indicators

Central bank interest rates – selected markets



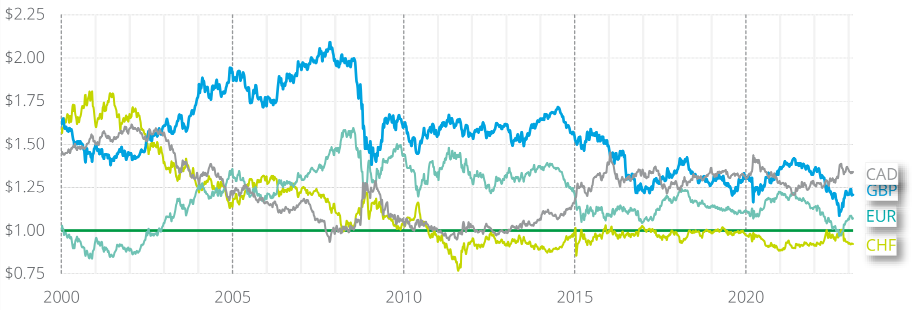
Source: Refinitiv Eikon (updated 15 February 2023)

Inflation (y/y) – selected markets



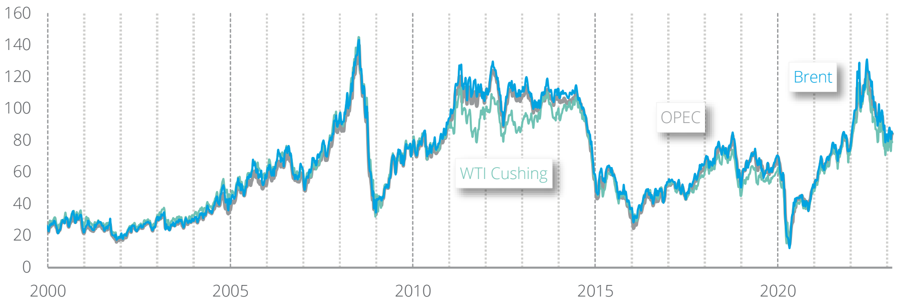
Source: Refinitiv Eikon (updated 15 February 2023)

FX spot rate – selected currencies (vs. USD)



Source: Refinitiv Eikon (updated 15 February 2023)

Crude oil (US$ per barrel)

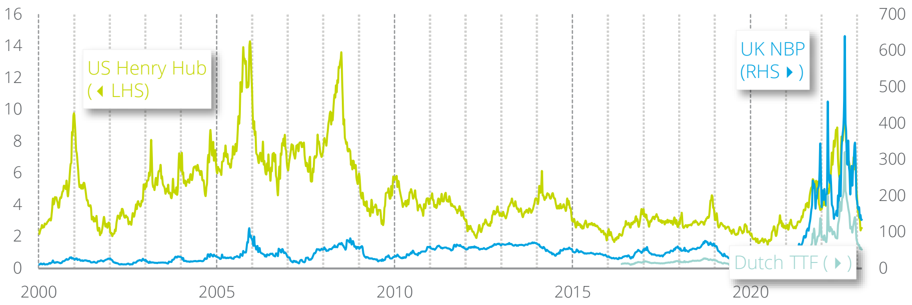


Source: Refinitiv Eikon (updated 15 February 2023)

10-year bond benchmark – selected markets

Source: Refinitiv Eikon (updated 15 February 2023)

Natural gas – selected markets



Source: Refinitiv Eikon (updated 15 February 2023)

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Credit conditions tighten | Deloitte UK CFO survey Q4 2022

Our latest CFO survey suggests that through the most aggressive tightening of monetary policy in more than 30 years, the Bank of England is successfully making credit less attractive and dampening inflationary pressure. There has been a broad easing in CFOs' perceptions of external risks, notably inflation, suggesting that the UK may have passed peak inflation in this cycle.

Access our full report:
[The Deloitte CFO Survey]

Following over a decade at record lows, the past year has seen the Bank raise the UK base rate sharply from 0.25% at the start of 2022 to 4.0% in February 2023. Not since the Global Financial Crisis have CFOs rated bank borrowing and debt issuance as less attractive.

Throughout the era of ultra-low interest rates debt finance easily eclipsed equity in terms of attractiveness, now they are roughly on par to the CFOs of the largest UK companies. Demand for credit is well below average, and flagging. Concerns about levels of leverage in the corporate sector has edged up.

Despite the challenging macro environment, CFOs' perception of external risk – particularly inflation – has eased from October's peak. There were reductions in ten of the areas tracked in our survey compared with only two which increased – both relating to volatility in global markets.

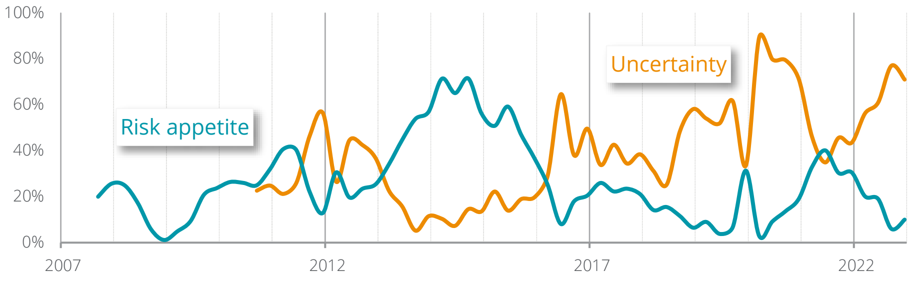
There was also a reduction in the share of CFOs reporting supply chain disruption or recruitment difficulties. This improved position is also reflected in their expectations for disruptions over the coming years.

The easing of CFOs' concerns about inflation, and reduced expectations for labour shortages and supply bottlenecks, supports the argument that the UK has passed the peak in inflation for this cycle.

Whilst CFOs anticipate cuts in capital expenditure, discretionary spending, and hiring over the coming year, they remain positive on investment in specific sectors over the medium term. In particular, CFOs expect to increase investment in workforce skills and digital technology and assets. Over 70% expect to see increased productivity growth and business performance over the coming three years.

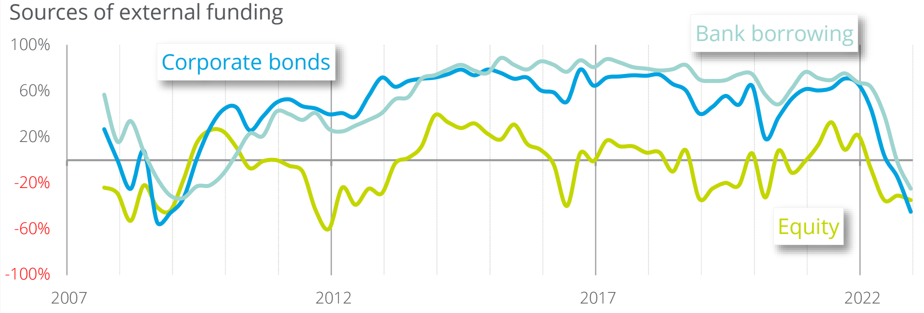
Nearly a third of finance leaders see an opportunity for stronger firms to grow market share in this competitive market environment. They also recognise opportunities to implement or accelerate structural change within their businesses, and optimise pricing of products and services.

Uncertainty vs. corporate risk appetite



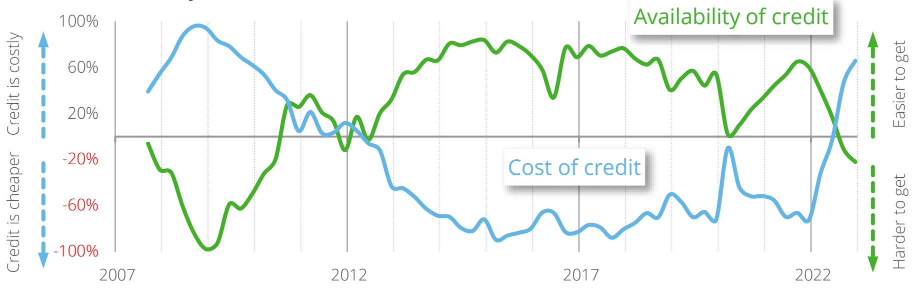
Source: Deloitte CFO survey Q4 2022

Sources of external funding



Source: Deloitte CFO survey Q4 2022

Cost and availability of credit



Source: Deloitte CFO survey Q4 2022

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Introducing the Deloitte UK Financial Stress Index | A monthly index of stress in UK financial markets

The Deloitte Economics & Markets Research team have developed a new index to measure stress in UK financial markets. The UK Financial Stress Index (FSI) measures stress across six key financial market categories – short-term financing, sovereign debt, corporate debt, equities, foreign exchange, and real estate – and aggregates those assessments into a headline metric.

The FSI is computed by analysing readings of fifteen variables across the six key financial market categories.

For each variable within a category, we measure how divergent the current reading is from norm and then average the divergence measures to construct the category index.

Finally, we average the six category indices to construct the FSI.

Equities

the ratio of total return on UK government bonds to UK equities, and volatility of the FTSE100 index

Corporate debt

the spread between yields on 10-year AAA corporate bonds and 10-year gilts, and the spread between yields on 10-year BBB corporate bonds and 10-year AAA corporate bonds

Sovereign debt

the spread between yields on 10-year and 2-year gilts, the average of the spread between yields on 10-year gilts and treasuries and the spread between yields on 10-year gilts and bunds, and the volatility of 10-year UK gilt yields

Short-term funding

the difference between the 3-month LIBOR interbank interest rate and the 3-month UK gilt yield and volatility of the 3-month LIBOR interbank interest rate

Real estate

the real annual growth rate of house prices, spread between mortgage interest rates and Bank Rate, and valuations of residential and commercial real estate investment trusts

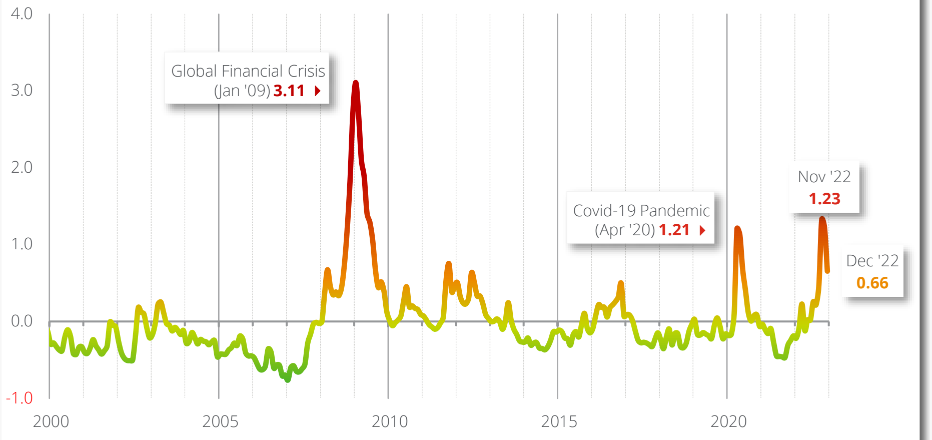
Foreign exchange

the ratio of trade-weighted US dollar to trade-weighted Sterling and volatility of trade-weighted sterling

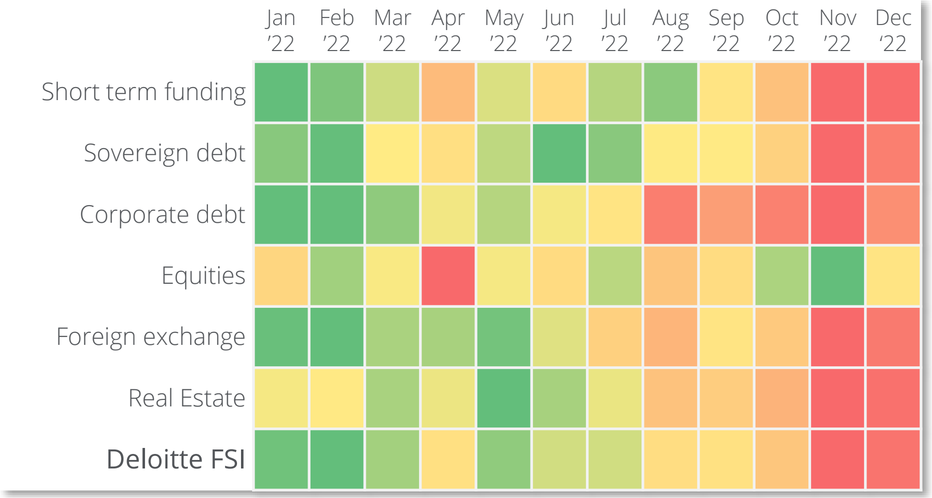
For more details, read our blog post: [The UK Financial Stress Index]

UK Financial Stress Index ("FSI")

Measuring the aggregate level of stress in UK financial markets



Source: Deloitte Economics & Markets Research (UK FSI – Dec 2022)



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An interview with… Gilad Myerson, Executive Chairman, Ithaca Energy

We have been consistently creating value through organic and inorganic growth and were waiting for the right window. This presented itself in 2022 when the world realised the importance of energy security and a lot of investors who had divested from oil & gas for ESG considerations realised the pendulum had swing too far. We saw that demand and decided to list.

Gilad Myerson has over 25 years' experience building businesses and driving value creation initiatives. He served as CEO and CFO of Ithaca Energy during the Group's transformation journey, having joined from Theramex, a CVC built and backed global specialty pharmaceutical company.

Ithaca Energy (LSE:ITH) is a leading independent oil & gas operator in the North Sea with a strong track record of material value creation. It is one of the largest independent oil & gas companies in the UK Continental Shelf.

ithacaenergy.com

Why did Delek choose to IPO Ithaca Energy?

There were multiple factors. The controlling shareholder of Delek has a fundamental belief in public markets and has listed many business over the years. He appreciates the liquidity of being listed and the opportunities it creates. He invited me to join, both to grow the Ithaca business and to list it.

From Ithaca's standpoint, it increases our credibility within the North Sea oil & gas industry. This credibility – with other exploration and production (E&P) companies, investors, and regulators – unlocks additional growth opportunities, while the listing also provides additional funding for growth. Listing is an important step for us. There are very few large-scale E&P companies that are not public.

Why London?

We are based in the UK, and are a proudly UK-focused oil & gas company, so it was always most appropriate to list in London. We are considering a secondary listing elsewhere, but we are happy on the London Stock Exchange for the moment. We were able to list in the Premium segment which allows entry of large institutional investors.

Why now?

We'd been looking to list for a while. Internally, we felt that we have reached all the milestones necessary to enable a listing, including the scale, the balance sheet strength, the cash flow, the track record, and future prospects. The metrics tell a strong story: 80k barrels per day; EBITDA of $2bn; very low net debt / EBITDAX ratio (under 0.7); attractive organic growth; five major acquisitions in three years; and large-scale projects ongoing.

We have a coherent story internally and were waiting for the right window. This presented itself in 2022 when the world realised the importance of energy security and a lot of investors who had divested from oil & gas for ESG considerations realised the pendulum had swing too far. We saw that demand and decided to list.

It wasn't straightforward. Listing an E&P business is not easy these days due to ESG considerations. Ours was the first E&P oil & gas listing in London in the last five years, and the backdrop for listing in general was very difficult. We spent a long time speaking to and listening to investors.

How did the geopolitical and local political conditions impact the IPO? There were three UK prime ministers during the process…

What was happening globally had a positive impact on us, as it emphasised the importance of energy and energy security in our lives. Throughout 2021 there had been a move by many to distance themselves from oil & gas as investors focused on ESG considerations, which was even more emphasised in the runup to COP 26 in Glasgow.

However this trend changed when Putin invaded Ukraine in 2022, and the impact on gas supplies shifted concerns to the impact on energy bills and having a reliable supply of energy through the winter. Whilst ESG concerns remain important when it comes to emissions, it's also important to support the industry and the transition, not only focus on the emissions in and of themselves.

On the other hand, local trends were less helpful. Notably the windfall taxes which, together with the political and fiscal volatility, were a thorn in our side. Working in an industry where CapEx cycles are five to ten years, it is important for us to have stable fiscal regimes to operate within. Our projects are large-scale investments of $2bn-$4bn, so we can't afford to have government change their mind every few months.

These changes also have a tendency to spook banks providing financing and investors providing the equity. The UK is calling out for energy independence and security, but not currently providing the necessary fiscal stability and confidence around that.

An interview with... Gilad Myerson, Executive Chairman, Ithaca Energy

Many people have asked how we managed to achieve what looked at the time like an impossible listing. When we started six months ago people said "you're planning to list an oil & gas company in London in 2022? That's impossible." We succeeded by setting out to understand what was driving these perceptions so we could address the hurdles one by one.

Gilad Myerson
Executive Chairman,
Ithaca Energy

What were the key learnings from this listing experience?

Firstly, the importance of finding the right investors, which for us are those who are in it for the long term. The metabolic rate of this industry is very slow, so it is not conducive for many hedge funds who are more focused on shorter term returns. We need investors who understand the pace and magnitude of what the company are trying to achieve and who will be supportive over that longer term.

Secondly, listening. Spend the time speaking to investors to understand exactly what they are looking for and their target metrics. For example, at the start of our journey we hadn't fully appreciated the importance of dividend yield as a key metric for many of our investors. By highlighting it through these discussions, we were able to respond accordingly.

Thirdly, don't underestimate the importance of in-person meetings. We live in a world today where everything can be done on Zoom and Teams, which can certainly improve efficiency. But the most impactful meetings we had were in person discussions with investors, banks, service providers, or analysts – where we could have interpersonal engagement and collaborate in person. Technology is a fantastic means to accelerate things but it can't replace in-person meetings.

Also, be very particular about the partners you choose to take you on the journey. Ultimately, it will be down to the individuals on the teams working with you – not the brand names – which make the difference.

The Deloitte team played a crucial role in this IPO, providing fantastic service level and partnership attitude. I felt the team really understood what we were trying to achieve. It wasn't a simple process, we had had rapid expansion through M&A and we needed to integrate and consolidate against a tight IPO timeline. It would have been easy for accounting partners to simply flag the risks, but the Deloitte team were on our side, helping to guide us through the process, supporting where appropriate, and raising red flags where necessary to indicate the lines we shouldn't cross.

Would you do it again?

An IPO is a very important process for any company, and forces you to mature as an organisation. In order to be eligible to be a Premium listed London Stock Exchange company, you need to have established a certain maturity in terms of corporate governance, board, decision making, controls, and processes, which is ultimately for the better. This was an important milestone in our growth journey as a company which has grown from under $100m EBITDA in 2018 to approximately $2bn in 2022.

There are always learnings, or aspects which you could improve, Overall, this was a good journey and satisfactory listing. The only element I was disappointed by has been the post-listing trading which has been negatively affected by the political and economic instability in the UK. The Energy Profits Levy (EPL) in particular has caused a lot of concern across the industry, and hit us as well. However our fundamentals remain very strong, with great prospects that will ultimately improve, and as a management team we are very cognisant of the need to establish our performance in capital markets.

Anything advice you'd like to offer to others considering a IPO?

Something which helped me incredibly thought his journey was benefitting from the collective wisdom, battle scars, and grey-haired experience of professionals who have done this before. It was so instrumental to go through this process with advisors, as well as friends and colleagues who have already been through such a journey and were willing to share their advice.

Many people have asked how we managed to achieve what looked at the time like an impossible listing. When we started six months ago people said "you're planning to list an oil & gas company in London in 2022? That's impossible." We succeeded by setting out to understand what was driving these perceptions so we could address the hurdles one by one.

Considering an IPO during challenging markets? | IPO readiness Q&A

Challenging macroeconomic conditions over the past year have delayed the majority of IPO processes globally. However given the long lead time to prepare for IPO, performing a readiness assessment now provides companies with the chance to exploit first mover advantage as markets reopen. Below we address some key questions for companies that are considering going public.

When is the right time to start preparations for an IPO?

In our experience you should **start 12-24 months prior to target listing date**. IPOs are transformational events, so starting readiness activities at least a year in advance allows sufficient time for any mitigation needed to be ready for listed company life, plus the time needed for the IPO execution phase, which is typically around six months.

By formally assessing your readiness to IPO early you can plan and run a well-structured process, affording proper consideration of the strategic options, and following a phased roadmap to address any gaps identified. This will help lessen the impact of preparations on business as usual, reduce transaction costs, and minimised execution risk of your IPO.

What are the most important areas to evaluate when planning for IPO?

Some key topics to consider for an IPO:

- the **equity story and growth strategy** which will underpin the investor marketing process;
- **completeness of the business' financial, operational, and legal dataset** supporting the equity story, and diligence of the historical track record;
- the adequacy of existing governance and internal controls, including **finance processes and controls, as well as reporting**;
- the **tax efficiency** of the listing structure, including existing shareholder tax implications of IPO; and
- incremental resourcing requirements and **IPO project management**.

Whilst the rules differ by listing venue, having a fully developed plan and financials are fundamental value drivers for a listing or dual-track process.

Are there any common pitfalls or areas that businesses most frequently need to address?

Our benchmarking of historical readiness reviews has highlighted these **key activities which companies have needed to undertake pre-IPO**:

- prepare their **financial track record** – with significant work often being required due to complex financial track records resulting from recent acquisitions;
- enhance their **internal control environment** – in particular ensuring proper documentation of the existing control environment;
- consider their **executive remuneration and proposed incentive structure** post-IPO;
- augment their **management reporting** – to be 'fit for purpose' for a public company; and
- develop their **corporate governance framework** – including board composition and committee structures through to specific new policies.

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What does an IPO readiness review involve and what are the outputs?

A readiness review comprises **a series of meetings with your C-suite and senior team** – including finance leadership team members. Typically conducted as series of **one- to two-hour meetings, held over the course of a few weeks, to establish the 'as-is' state** – these can generally be accomplished without requiring the preparation of new information or documents in advance.

Recommendations are then fed back to management in a focussed presentation or report, with prioritised findings clearly matched to next steps and an illustrative **roadmap for listing**.

Our newly-launched IPO Scanner – highlighted on the following page – provides an even more **immediate initial gauge of your IPO readiness**.

What are the benefits of an IPO readiness review?

The **clear and practical plans set out in an IPO readiness review** enable management to focus attention on priority and identify lead time requirements for the listing process, as well as post-IPO demands.

A structured plan to address challenges early and efficiently enables remediation to be progressed ahead of the execution process. This output also **facilitates the role of various IPO stakeholders** (e.g. investment banks, regulators, auditors), for example by **reducing advisor diligence costs**, **improving speed to market**, and **ultimately lessening the impact on business as usual** – essential at a time when it will be under close investor scrutiny.

Can an IPO readiness review consider more than one listing venue or multi-track processes?

With companies increasingly looking beyond their domestic market to consider listing venues worldwide, an effective IPO readiness assessment will **bring in relevant experts to advise on the impact of market and regulatory requirements of any overseas listing venues** which are being considered.

Similarly, companies regularly consider a number of exit strategies in parallel – most notably as a dual track, where an IPO is explored concurrently with a private sale or auction. **A Readiness assessment can assess both M&A and listing preparedness** to establish the genuine feasibility of each track, and advise on how best to prepare for a process that should maximise both deal value and certainty.

What changes or trends in IPO preparation have you observed in recent years?

Two noticeable trends over recent years have been the use of consultants or contractors for focused support as:

- **Assist advisors** – appointed by the management team to provide 'in-house' technical advice or resource support with implementing the necessary transaction or IPO preparations. This will typically be an advisor other than the auditor.
- **Transaction Management Office (TMO) support** – recognising the need for dedicated project management skills to help de-risk and efficiently deliver an IPO. Often sourced as a contractor or from a professional services firm, TMOs are most effective when appointed 'within' the business, leveraging prior deal experience to identify risks early, work collaboratively with all stakeholders, and free up management time to focus on business as usual.

Whilst these trends are most apparent at the larger end of the market they are relevant across all deal types, especially if there is a particularly compressed timeline or complex set of issues. We therefore expect both of these trends to continue as companies seek efficient and effective ways to be ready to IPO and respond to the market at the right time.

Are you ready to go public? | Introducing the Deloitte IPO readiness scanner

Are you a founder, CEO, or CFO considering taking your company public?

Do you have a clear understanding of what an IPO entails, and how your company can ensure it is ready for not only the IPO process but also life as a listed company?

Are you a founder, CEO, or CFO considering taking your company public? Do you have a clear understanding of what an IPO entails, and how your company can ensure it is ready for not only the IPO process but also life as a listed company?

Early preparation is key to a successful transaction and ensuring your business is able to attract the right investors and achieve the value your business warrants. Our IPO Scanner helps you to clearly identify the key actions and resources required, so your company can set out a practical and realistic roadmap to IPO.

What is the IPO Scanner?

Our free and easy-to-use IPO Scanner provides you with a headline assessment of your company's readiness to IPO, with analysis across seven key categories – including equity story, diligence and working capital, financial reporting, risk and controls, and more.

Once you have completed the IPO Scanner, you will receive a PDF report outlining your company's preparedness across these seven categories. The report includes commentary and best practice to help you start your journey towards an IPO.

Next steps

Our team is also available to discuss the findings with you in more depth, supporting you through the development and implementation of a bespoke plan and practical solutions to get your business fit and ready for life as a listed company.

Submit your name and contact details to start the IPO Scanner

Click the link in your email to complete the full assessment *(this should take about 15 minutes)*

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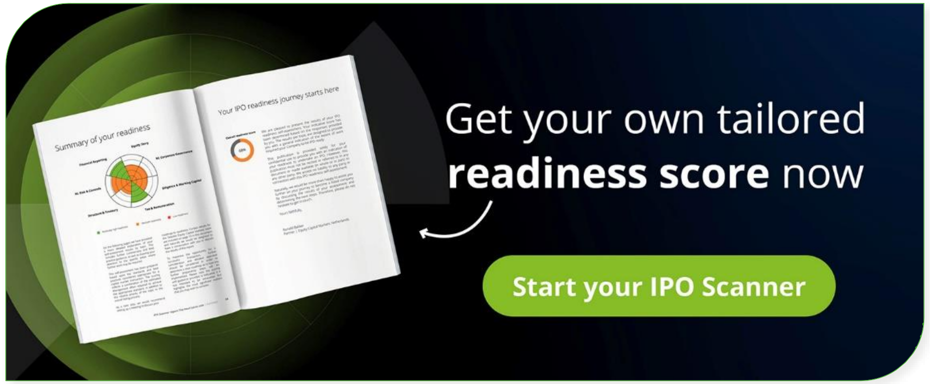

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An interview with... Mark Austin

A capital market is at its core about capital and so my review looked at ways we could make it quicker and cheaper for companies to raise capital once listed, in a way that would also be to the benefit of investors. It was an area that had not been updated in the UK for a long time.

Mark Austin is a Corporate and M&A Partner at Freshfields.

On 12 October 2021, the Treasury appointed Mark as independent chair of the UK Secondary Capital Raising Review, tasked with making recommendations on how further capital raising processes by companies that are already listed could be made more efficient.

He published the outcome of his review in July 2022, with a series of recommendations to the Government, Financial Conduct Authority (FCA) and the Pre-Emption Group (PEG).

What were you trying to achieve with this review?

To take on the work that we had already started with Lord Hill's review and try to ensure that the UK remains a competitive and relevant financial centre and capital market on the global stage. As part of that, it is important to ensure that the UK is attractive as a listing destination not only at the point of entry but also on an ongoing basis once listed.

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Which recommendations in your review would you call out as being the most important?

They were very much put together as a package that works holistically. So I'm not sure I would say that any of them are necessarily more important than any others. The one that was always going to attract the most attention was the recommendation that we move to a position where companies can, provided they get shareholder approval to do so, issue new shares constituting up to 20% of their issued share capital without having to offer them pre-emptively rather than up to 10%. It worked well on a temporary basis during the pandemic and, with the protections around it as set out in my recommendations, is the right thing for us to adopt permanently.

How supportive did you find the various market participants? Who were the biggest supporters ... and who were the biggest challengers?

One of the most noticeable and encouraging things in the past couple of years is how far the reform conversation has moved on. When we started Hill, the response when you talked to people about it was often 'Reform? Really?'. Now it is 'Reform, yes absolutely, what and how fast can we do it?'. The vast majority now accept and agree that we need to reform – meaningfully – if we want to stay relevant. And I found that on my review as well. I would say nearly all stakeholders understood and agreed with what we were seeking to do and why.

What has the reception been like from HMT, the FCA and PEG?

They have all been incredibly supportive throughout. The Chancellor welcomed and accepted my recommendations in his Mansion House speech in July last year. The FCA also welcomed the recommendations as did PEG. And PEG has now implemented them and adopted the revised Statement of Principles that I helped them prepare – including the move from up to 10% pre-emption disapplication in any one year to 20%, as mentioned above. It is revising the membership of the group and is updating its website and other materials too, also in line with my recommendations. A lot of credit should be given to all of them for moving with speed and vision.

2022 was tumultuous both politically and economically – how has that affected the implementation of your recommendations?

It hasn't affected either my recommendations or the cadence of reform more generally. The Government understands the importance of updating ourselves as a financial centre to keep ourselves relevant and competitive and how intertwined that is with the success of the wider economy and the societal benefits.

How would you describe the overall effect of the current Chancellor's Edinburgh Reforms?

I think they were important in a few ways. Firstly they were culmination of a lot of thinking over, in some cases, quite a period of time. They were diverse in their subject areas but were the right areas to hit as a starting point. And they are just a starting point. Some of them will take time to feed through but they are very welcome as a package and should make a difference. The second way in which they're important is in the message that they send – their symbolism. They demonstrate actually moving past actions and into words, from just talking about doing – which we have been doing for a while – and actually doing. Which is absolutely correct – time is of the essence and we need to act now and we need to be honest in the questions we ask ourselves and bold and brave in the actions we take.

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An interview with... Mark Austin

This is a wide-ranging project that has considerable time pressure on it to ensure that the UK as a financial centre remains as relevant and central in the next 20 to 30 years as it has in the last 20 to 30 years.

Mark Austin
Independent Chair,
UK Secondary Capital Raising Review.

Are there any further aspects of the UK's listing regime which should receive further focus?

The most important discussion that has started and that will continue in the coming months is around the FCA's Primary Markets Effectiveness Review and specifically the proposed collapsing of the premium and standard listing segments down into one segment. I think it is clear what we need to do in terms of reform but we need to make sure it lands in the right place as it will be a huge opportunity missed if we don't.

Are all the right actions being taken to ensure London retains its competitive position for IPOs and listed companies globally?

Yes I think we are making good progress, although there is much to do.

Legal and regulatory regime reform is actually only one – an important but actually relatively small - part of the wider reform that we need to do in the UK. It's one that I characterise as now having a dotted green tick in the box. By the end of this year – or into next year in a couple of cases – we will see a meaningfully reformed listing regime that has closed the gap in many areas with other jurisdictions and which in many others has moved ahead of other countries. You can see the evidence of that in the fact that the EU Listing Act proposals contain some familiar ideas for example...

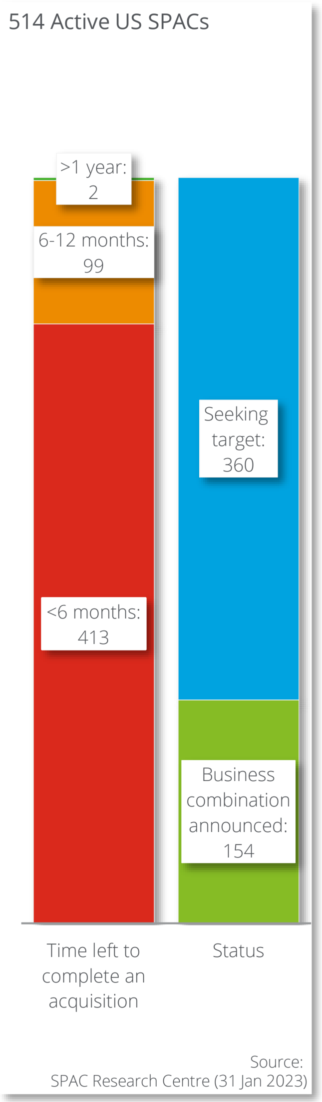
But the actions we need to take in the UK go much further. The Edinburgh Reforms capture some of that but even in addition there is much more work to do. We are very actively working on a multitude of other areas. They range from taking steps to unlock investment capital more meaningfully in our markets through to creating a better environment in which entrepreneurs and high growth companies can start, scale, and stay as well as joining up private and public capital markets and also taking a fresh look at how we think about governance and stewardship.

Some of that is law and regulation change, some of it is changing market practice and some of it is changing cultures and attitudes. Law and regulation change is actually the easier part as the others require tackling some long-held shibboleths but they are critical. As an illustration, we need to move away in this country from the risk averse approach we have in so many areas – from a 'what might happen if we didn't have this rule' mindset to a 'what are the opportunities if we didn't have this rule' mindset. That is not deregulation for its own sake, it is smarter regulation that frees up capital and opportunity and so drives growth and prosperity.

As I have said many times, there is no point in having a theoretically perfect market and financial centre if people choose to use other ones. This is a wide-ranging project that has considerable time pressure on it to ensure that the UK as a financial centre remains as relevant and central in the next 20 to 30 years as it has in the last 20 to 30 years.

Reaching expiry date | The global market for SPACs

Special Purpose Acquisition Company (SPAC) activity has continued to decrease in line with the wider slow-down in traditional IPO markets. While many SPACs are reaching their expiration date and liquidating, there is still a significant amount of opportunity for target companies looking to complete a deal within the next twelve months.



SPACs in the context of the broader capital markets

Similar to the trends seen in the broader IPO and capital markets, there was a sharp drop in the number of SPAC listings in 2022, following the record levels seen in previous years, with only 86 SPAC IPOs in 2022 compared with 613 in 2021. This decrease was even more marked in terms of gross proceeds raised, which fell by over 90% to $13.4bn in 2022, reducing the average SPAC IPO size from $265m to $156m.

Many companies are delaying their plans to go public in the context of challenging market conditions and geopolitical uncertainty, and instead shifting their focus to profitability, cash management, and other sustainable growth measures. These trends were amongst those highlighted by the investors and industry experts presenting at the European SPAC Conference held in London last December, co-sponsored by Deloitte.

The US SPAC market

There are 514 active SPACs – representing $105bn of funding – as of the end of January. Of these, 154 have announced a business combination, leaving 360 which are still seeking a target, or have yet to sign a deal with their target.

SPACs which do not complete their business combination within the designated timeframe – typically two years from their IPO – are required to liquidate and return their funds to investors. With the peak of SPAC IPOs occurring in late 2020 and early 2021, the majority of SPACs currently active are rapidly approaching their expiry date – about 80% of which coming due in the first half of 2023. This has led to an increasing number of SPAC liquidations, with 141 already liquidated during 2022, and at least as many more anticipated to do so in the coming year.

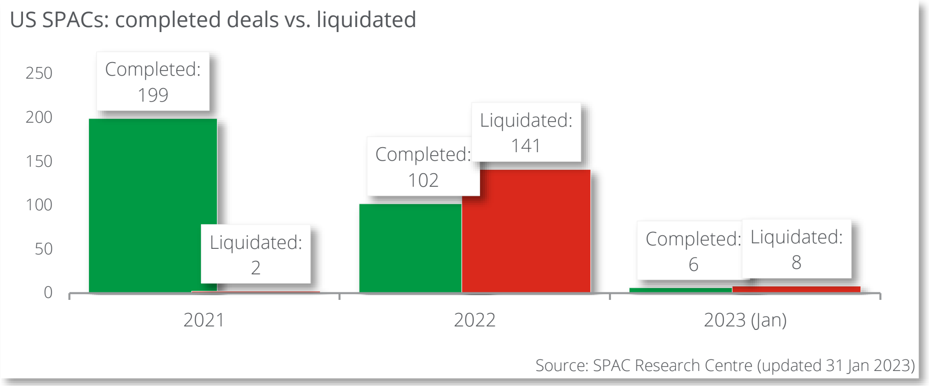
This also poses significant opportunities for target companies considering a SPAC merger within the coming year. They should carefully evaluate the quality of the SPAC – including sponsors and level of Private Investment in Public Equity (PIPE) financing – as well as the SPAC expiry date, and how this might impact the transition timeline.

Target companies should also give particular consideration to their own readiness for life as a listed company, including the availability of audited historical financial statements – noting that the time required to complete a Public Company Accounting Oversight Board (PCAOB) audit will need to be factored into their timeline.

Companies who are taking a longer-term view when considering a SPAC merger may also find that the expected liquidation rate of existing SPACs presents possible future opportunities as investors seek out new avenues to invest the funds returned, which could include traditional IPOs, new SPAC IPOs, or private investments.

UK and European markets

Despite the legislative changes implemented in 2021 to enhance London's attractiveness to investors, global economic conditions have prevented the volume of SPAC activity in the UK and European markets from increasing. Thus, while these SPAC markets remain relatively nascent in practice, we expect SPACs to be a permanent feature of both the UK and European markets going forward, subject to recovery of market conditions.



Sorting the facts from the myths | An FAQ on UK vs US listings with Neil Shah and Chris Mayo

Valuations are predominately driven by fundamentals. The higher a company's growth and/or margins, the higher their valuation, irrespective of size or listing venue. Some UK and European companies enjoy a healthy premium to their US counterparts while others trade at a discount.

Neil Shah
Tech Sector Specialist
London Stock Exchange

Chris Mayo
Head of Primary Markets, Americas
London Stock Exchange

When it comes to achieving a successful IPO, where to list is a key question to consider. For high-growth tech companies in particular, the choice typically comes down to either London or New York.

Here we put some of the most frequently asked questions and assumptions to two experts from the London Stock Exchange to sort out the facts from the myths, and highlight the key options and considerations for companies who are evaluating where to list.

Based in London, Neil Shah (NS) heads coverage of the tech sector for the London Stock Exchange. Previously Neil was an investment banker for 15 years focused on the technology sector and acted on behalf of primarily British and European clients. This included helping originate and execute IPOs and follow-on fundraises on a variety of venues including London Stock Exchange, NYSE, NASDAQ, Frankfurt and the Australian Stock Exchange. Neil also has extensive cross-border Tech M&A experience and helped sell companies to Samsung, Marvell Semiconductor and National Instruments.

Based in New York, Chris Mayo (CM) helps companies and investment managers from the Americas access capital through corporate equity and fund listings on London's public markets. He has 25 years of corporate finance experience in New York and London for Barclays, Salomon Smith Barney, Citi and Schroders and has executed IPOs, financings and M&A transactions in the US and Europe worth tens of billions of dollars. Previously, Chris was the Primary Markets specialist on the technology and life science sectors and was also an investor and Head of Strategy for an early-stage cloud managed services company, which exited to a UK technology company. He holds a First Class Honours Bachelors Degree in International Business and German from Aston University, a Masters Degree in International Affairs from Columbia University and is a CFA Charterholder.

There's a general perception that companies can achieve a higher valuation on IPO in the US, as compared with UK, or other global markets – is there a basis of truth to this?

NS: Valuations are predominately driven by fundamentals. The higher a company's growth and/or margins, the higher their valuation, irrespective of size or listing venue. Some UK and European companies enjoy a healthy premium to their US counterparts while others trade at a discount.

CM: Contrary to popular belief, in the last ten years, only three VC-backed UK tech companies have chosen the US as the location for their IPO. Candy Crush developer, King; email security vendor, Mimecast and fashion marketplace, Farfetch. Few European tech companies have followed this path either, likely because aftermarket performance has generally been very poor – via IPO, direct listing or SPAC. The risk of getting lost in the US is all too real where unicorns are abundant. In volatile markets, foreign companies often succumb to sell offs vs domestic peers and fail to recover.

Whether the UK or the US – what are the key factors for companies to consider in terms of achieving their target valuation on IPO?

NS: In 2022, valuations of public tech companies fell globally and we've seen significant down rounds by privately held businesses. We encourage boards not to think about fundraising (IPOs included) as an M&A exit but as an opportunity to find new long-term shareholders – setting the stage for further capital raisings to support future development.

CM: For both mature and high growth businesses, there is often a tension between size of free float, secondary sell-down by existing shareholders, and impact on valuation that is tested in pre-marketing. UK markets are more accommodating of secondary sell-down than US markets. But IPOs usually are rarely full exits, so by having a liquid stock, you create an ability to "grow into" a valuation.

Sorting the facts from the myths | An FAQ on UK vs US listings with Neil Shah and Chris Mayo

London supports smaller companies in a way the US cannot: transaction costs of listing are significantly lower, there is no requirement for quarterly reporting, and significantly lower litigation risk. In a world where index inclusion is increasingly important, the ability for unicorns to be included in the benchmark UK indices can be a competitive advantage compared with a US listing.

Neil Shah
Tech Sector Specialist
London Stock Exchange

Chris Mayo
Head of Primary Markets, Americas
London Stock Exchange

Are there specific sectors/sub-sectors, or geographies which tend to outperform in the respective markets?

CM: Fundamentals should drive valuations in most cases but there are some sectors where there is a need to look beyond that – biotech being a case in point. But despite the US having a deeper pool of specialist investors, US IPO performance for this sector has been poor over the last couple of years as risk appetite has waned. Also, the UK tends to be a more benign environment for smaller companies – those below $10bn in valuation.

Are there considerations beyond valuation which should be considered when choosing a market to IPO?

NS: A public listing enables companies to raise their profile with customers, suppliers, employees, potential hires, and M&A targets. With a listing comes a liquid currency and London-listed paper is attractive particularly when looking at staff remuneration and M&A currency. A second reason is access to capital at IPO, and on an ongoing basis, to support organic and inorganic growth, and to provide liquidity to shareholders on exit.

London works for companies of all sizes and geographies, with multiple routes to market to suit different types of issuer. As the world's most international exchange, the London Stock Exchange has over 700 companies which are either headquartered or have the majority of their operations overseas. Whilst we welcome companies of all sizes, some of our best performing companies started life with market caps below $100m.

CM: London supports smaller companies in a way the US cannot. For example, in London the transaction costs of listing are significantly lower, there is no requirement for quarterly reporting and significantly lower litigation risk. Further, index inclusion is becoming increasingly important. In the UK, unicorns can qualify for the FTSE 250 and possibly the FTSE 100, but few would qualify for the Nasdaq 100 or the S&P 500, due to size or because they are not domestic US businesses.

When is it worth considering a dual listing?

CM: There has been increased interest in dual listings recently as companies look to access a broader pool of capital. However, this is rare at IPO, often driven by company-specific circumstances. UK IPOs with no concurrent US listing typically see substantial demand from US institutions which own about 40% of the UK market. London dual listings are frequent in markets such as Canada or Australia, especially in areas such as natural resources. As a more supportive environment, we see smaller private US growth companies IPO in London first, before adding a US listing when they have achieved greater scale.

What would be the one key piece of advice you would give to a company who is considering which market to choose for IPO?

NS: Talk to well informed and active advisors and other companies who have been through the IPO process. Try to keep an open mind as the dominant narrative is often false.

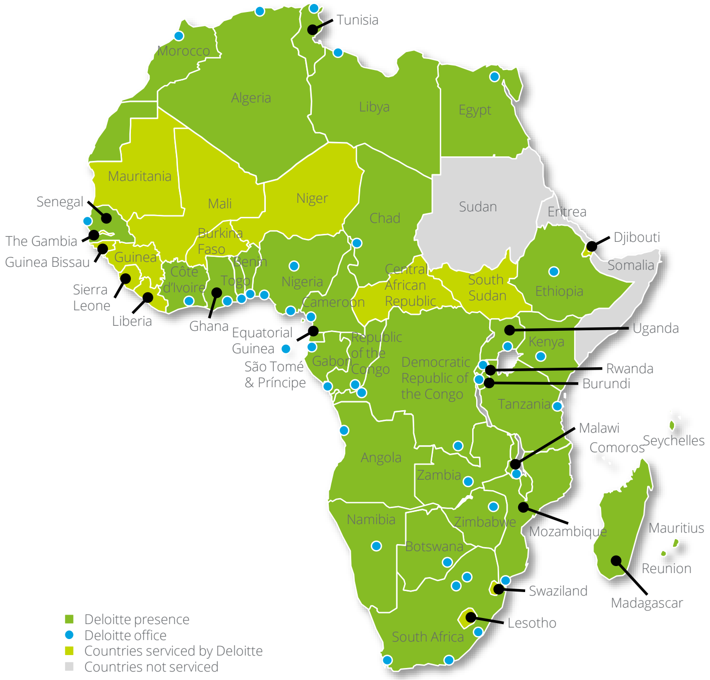
The hunt for growth IPO opportunities | Will frontier markets feature as the markets re-open?

Companies with differential growth prospects are becoming harder to find in the current macroeconomic and geopolitical context in the more established Western markets. Could this present an opportunity for businesses in frontier markets – such as Africa, the Middle East and Israel – to feature more prominently in IPOs over the coming year as equity capital markets reopen?

London's capital markets have long been global in nature, providing a forum for both investors and businesses from around the world. The London Stock Exchange is home to over 700 international businesses, representing over a third of its listed companies, the highest ratio of any major global exchange.

There are over 120 African businesses listed in London – including the likes of Helios Towers, Airtel Africa, Grit Group, and Seplat – demonstrating investor appetite for high growth opportunities from frontier markets, which in addition to Africa also includes the Middle East and Israel, and various Central and Eastern European countries.

Energy and natural resources has been a sector of particular focus and deep expertise amongst London investors, although similar trends can be seen across a number of industries and sectors.



The story of the last few years

The record year for London IPOs of 2021 was an exception to the historical norm, with greater focus on UK domestic or UK head-quartered businesses and relatively few listings from global frontier markets.

In addition to the impact of the pandemic, a notable contributing factor to this difference was the surge of SPAC IPOs in the US which were seen by many frontier market businesses as offering a shortcut to IPO, and with the prospect of higher valuations. In reality however, the majority of these transactions were unable to secure adequate support from existing or PIPE investors in order to complete. Thus highlighting the difference between UK and US investors in their appetite for and understanding of the nuances inherent in these frontier markets.

Why might frontier market opportunities be appealing to investors?

A few factors to consider include:

- A number of the macroeconomic and geopolitical trends impacting Western economies have less of an impact on businesses in frontier markets. For example:
  - Debt is often a smaller element of the funding mix, meaning less exposure to interest rate rises.
  - The cost base will typically be lower, particularly salaries and other overheads.
- The fundamental drivers of growth in frontier markets can still present rapid growth prospects for many businesses, regardless of trends in more developed economies. Examples include:
  - Continued and growing demand for mobile phone networks to support expanding ownership and usage of smart phones.
  - Rapid adoption of new technologies, often 'leap-frogging' the development stages experienced in western economies (e.g. mobile money, mobile banking, and money transfers).
  - Significant natural resources which have become increasingly in demand due to the geopolitical situation in the Ukraine, and broader global supply chain challenges.
- Privatisation and/or economic liberalisation policies by governments, opening up opportunities to investors into previously state owned enterprises.

Industries which are set to be of particular focus for investors include financial services and technology – including FinTech, mobile network operators, tower companies, and data centres – as well as energy and natural resources. There is a pipeline of frontier market companies from across these sectors which are considering listing onto the London Stock Exchange as the IPO window reopens.

Our dedicated team of over 150 ECM professionals provide specialist expertise across the lifecycle of an IPO, SPAC transaction, M&A transaction, or equity fundraising. We have had a role in over 50% of London Main Market transactions in recent years, helping businesses maximise shareholder and stakeholder value, and navigate each stage of the process of raising equity capital in London. In addition to London, our team has executed transactions on 15 different international exchanges in the last five years, notably the US where we have dedicated SEC expertise.

Readiness assessment

- Help companies prepare for an IPO, SPAC or other ECM transaction.
- Covers both financial and commercial aspects of a transaction.
- Readiness assessment with a key findings report – identifying where further work will be required.
- Development of a remediation plan to address shortcomings prior to transaction kick-off.
- Assessment of resource requirements, and preparation of a detailed project workplan.

Reporting accountant

- Formal role reporting to both the company and the sponsor / key adviser / nomad.
- Required on most London IPOs, Class 1 transactions and further equity issues requiring a prospectus.
- Principal workstreams typically include: historical financial information (HFI), long form due diligence, financial position & prospects procedures (FPPP), profit forecast, and working capital reporting.

SPACs

- Dedicated and experienced SPAC services team.
- Extensive experience of US and SEC requirements.
- Support provided throughout the lifecycle of a SPAC – from initial IPO through to de-SPAC.
- Experience of supporting target management teams through a SPAC merger.

ECM assist

- Working company-side to support management and finance teams throughout a transaction.
- Provides both resource capacity and technical expertise, tailored to the support required for the transaction, including:
  - transaction management office;
  - preparation of financial information or track records;
  - governance and internal control enhancements;
  - complex modelling; and
  - integration/separation considerations.

Transaction management office

- Provide expertise project management office support for a transaction.
- Experienced personnel to ensure the transaction happens to timetable and issues are identified and dealt with.
- Tried and tested project management methodologies and tools.
- Fully scalable model that can be deployed rapidly across an entire programme or discreet workstreams.

Structuring

- Determining the most appropriate ListCo jurisdiction, and whether to use a new or existing entity.
- Tax considerations including capital gains taxes, transfer duty, stamp taxes or pre-transaction restructuring implications.
- Consideration of tax position of existing shareholders, including minimising shareholder tax leakage on the transaction.
- Considerations for dividends and distributable reserves.

Our partner team | Deloitte Equity Capital Markets

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