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Springing back to life

ECM update | Summer 2021

Financial Advisory

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Welcome to the 10th Deloitte ECM update

London's equity capital markets are rebounding strongly as the economy recovers from the initial shocks of the Covid-19 pandemic, and the headwinds of Brexit uncertainty have largely diminished. The bull run of London Stock Exchange IPOs – 24 IPOs on the London Main Market raising £9bn in the first half of 2021 – is the highest first half performance in five years, and looks set to continue into 2022.

Matt Howell
Partner

Simon Olsen
Partner

www.deloitte.co.uk/ecm

Since 2016, the Deloitte ECM update has been providing commentary and analysis of the performance and trends in London's equity capital markets, together with a review of current hot topics in the IPO market.

Now in its tenth edition, we look at the spectacular rebound in equity capital markets and IPO activity, as the UK and global economies recover from the initial shocks of the global Covid-19 pandemic, and the headwinds of Brexit uncertainty have largely diminished. This has led to an exceptional IPO window in the first half of 2021, which is showing little sign of abating. IPO activity has included a number of blockbuster IPOs of household names, such as Dr Maartens, musicMagpie, Moonpig, Trustpilot, Deliveroo, and more recently Wise.

Whilst the IPO boom has featured companies from all sectors, there has been a particular focus on tech IPOs, with 29 tech and consumer internet IPOs on AIM and the Main Market during the first half of 2021. Many of these businesses have seen their growth accelerated by the impacts of the Covid-19 pandemic.

Recent months have also seen the adoption of new listing approaches, with high profile examples of tech founders choosing to list on the Standard segment in order to retain greater control over the future business direction through dual class share structures which are not permitted on the Premium segment. July also saw Wise complete the largest ever direct listing for a UK IPO.

In addition to the record number of companies coming to the London markets in the first half of the year, this has also been a busy six months in terms of the broader IPO landscape and regulatory environment.

Lord Hill's review of the London listing regime, published in March, proposed a range of regulatory and structural changes designed to help level the competitive playing field with other international exchanges – notably the U.S. – and make London a more attractive listing location for tech entrepreneurs and the next generation of large companies.

New regulation to facilitate a SPAC market in London has now been announced by the FCA. Further proposals – many of which are expected to be implemented later in the year – include reducing free float requirements and allowing dual class share structures on the Premium segment. More broadly there is clear intent from government and the London Stock Exchange to ensure London's equity capital markets retain their pre-eminent position on the global stage.

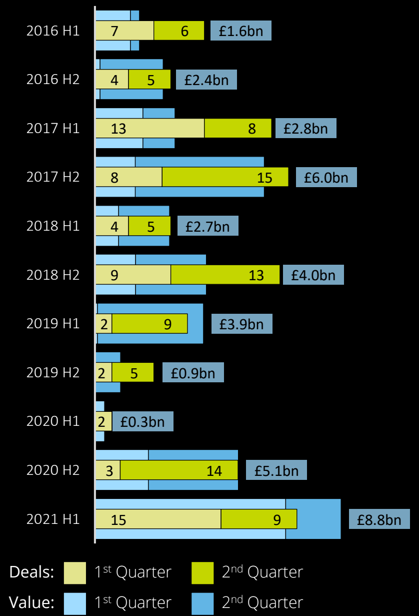
In this edition we feature interviews with three inspirational CEOs who have completed London listings in the first half of 2021: Romi Savova, founder and CEO of PensionBee; Steve Oliver, founder and CEO of MusicMagpie; and Bronwyn Knight, CEO of Grit Real Estate Income Group.

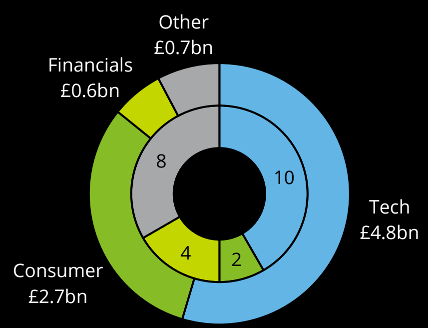
We hope you enjoy this edition of the Deloitte ECM update.

A return to growth | UK ECM market update

Global markets have been seeing a return to growth, with reduced volatility and growing confidence in the post-pandemic economic recovery. This is leading to increasing market activity.

UK Main Market IPOs and deal values





Source: Dealogic (updated 3 Aug 2021)

The first half of the year has seen a return to less volatile conditions for global markets, with reduced uncertainty leading to **greater confidence and focus on growth**. Equity markets have enjoyed generally steady growth throughout the first half of 2021, recovering from the dramatic losses of early 2020 and emergence of the Covid-19 pandemic.

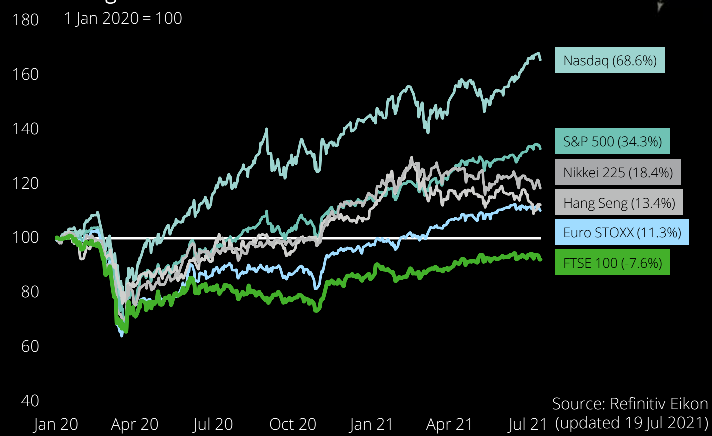
The Cboe volatility index (VIX) has **continued its downward trend**, returning to the pre-pandemic levels despite a few minor spikes.

While the FTSE 100 has continued to see more muted growth – continuing its lacklustre trend over recent years – performance has been **stronger in the FTSE 250 and AIM**, which ended the first half trading 2.4% and 27.5% above pre-pandemic levels, respectively.

Even more notable has been the recovery in IPOs, with **24 listings on London's Main Market** and 19 AIM listings raising a **combined £10bn** in the first half of the year. A trend which has continued into the second half, with a further £3bn raised through a record 32 IPOs (6 Main Market) in July alone.

Driving the IPO rally are tech businesses, many of which have seen their **growth accelerated by the impacts of the Covid-19 pandemic**. A number of household names have been accompanied by the likes of Auction Technology Group, Darktrace, and Alphawave IP.

Selected global indices



Source: Refinitiv Eikon (updated 19 Jul 2021)

Cboe Volatility Index (VIX)

2020-2021 vs. Global Financial Crisis (Aug 2008)

Source: Refinitiv Eikon

Growth is the priority | Deloitte UK CFO survey Q2 2021

After five years of defensive strategies, our latest survey reveals that CFOs of the UK's largest companies are shifting their focus towards growth. While bank borrowing and corporate bonds remain the most attractive sources of funding for their expansionary strategies, equity has seen a significant increase in popularity, reaching the highest level in seven years.

Emerging post-pandemic trends

CFOs expect to see increases in the following categories over the coming three years as compared with pre-pandemic trends:

89% Investment in digital technology and assets

83% Productivity growth and business performance

49% Capital expenditure

32% Investment in physical assets and machinery

Spending by the UK's largest businesses is set to surge over the coming months, according to our latest CFO survey. As the economy reopens post-pandemic, the external uncertainty of the last five turbulent years is giving way to a more bullish perspective with increasing risk appetite and inclination towards expansionary strategies.

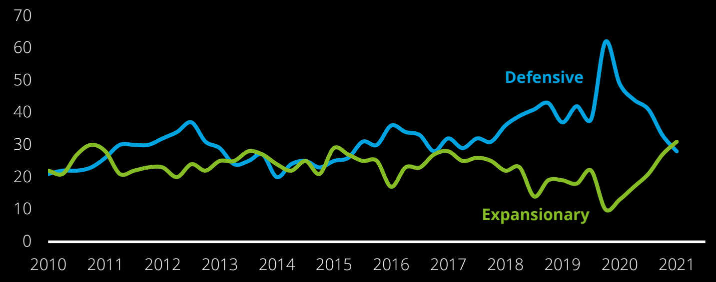
Having spent the last year focused on cost reduction and defensive strategies, CFOs are now prioritising growth, with expectations of increasing hiring, CapEx, and discretionary investment over the coming 12 months.

Investment in technology features as a strong priority, and M&A seems set to play an outsized role in reshaping the business landscape, with CFOs rating expansion through acquisition a higher priority than at any time in the past decade.

CFOs continue to rate debt finance – bank borrowing and corporate bonds – as the most attractive source of external funding. But with risk assets rallying, equities have risen in popularity and are now rated at the highest level in over seven years.

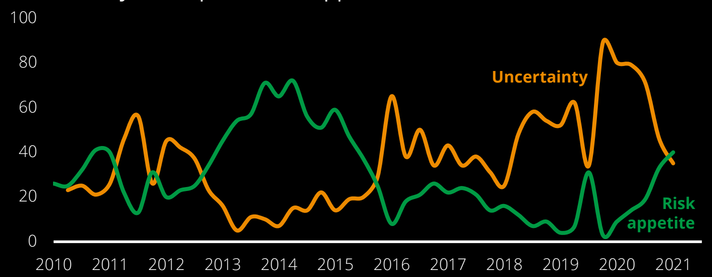
The full report of our Deloitte CFO survey Q2 2021 is available online: https://www.deloitte.co.uk/cfosurvey

Expansionary vs. Defensive strategies



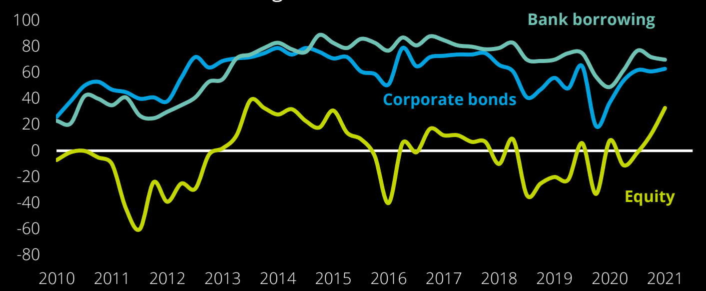
Source: Deloitte CFO survey Q2 2021

Uncertainty vs. corporate risk appetite



Source: Deloitte CFO survey Q2 2021

Sources of external funding



Source: Deloitte CFO survey Q2 2021

An interview with Romi Savova | Founder and CEO, PensionBee

"We're strong believers in one-share, one-vote – there was never any doubt that we'd choose a single class share structure."

Why did you choose to IPO?

We had always had the ambition to ultimately get listed, ever since the early days of the company. We're a retail financial services business, and our customers in financial services expect and deserve the transparency that a listing brings. We own a lot of pension assets, and have an interest in how listed companies behave, particularly in sustainable investments – we wanted to practice what we preach, and role model that good practice.

Why now, why London?

We'd had a rapid growth curve, roughly doubling in size every year. We knew we had to raise capital to maintain that trajectory – and as we're UK based, our customers are UK based, we never considered listing anywhere other than London.

Why include the PrimaryBid customer retail offer?

We always knew we wanted customers to be able to come on this journey with us. We partnered with PrimaryBid to have a big customer investment round, as we knew we wanted to be on the public stage. We chose this single class of share structure as we're strong believers in one-share, one-vote – we're vocal about this when we're talking about the funds we invest in, so there was never any doubt we'd structure this way.

What did you learn from the experience?

I'm really pleased we invested a lot of time early in finding the right group of investors – those who shared the vision of the company, and were willing be real stakeholders in our business. These relationships take time to build – it's not just one thirty minute session, it's multiple rounds of engagement. I'm very pleased with the overall quality of the investors we have and the relationships we have built through the process.

I'm also pleased we paid attention to our advisor selection process. We picked a heavyweight team, including Deloitte, to de-risk the execution. We achieved it with no delays, absolutely on timeline. Our investment bank, legal, and accounting advisors worked really well together – and with us. You end up working intensively together for six months or so, spending more time with them than your family, so you have to choose the right group.

Were there any downsides to doing this during a pandemic?

The shift to all-virtual working was beneficial to us. An IPO is a very intensive process, working online you can instantly be in the same room, it's easy to control communications, everything is so tightly scheduled. We found it helpful, we were more efficient, we could meet a lot of investors, it shortened physical distances. We're taking the online model forward in our organisation.

What advice do you have for companies considering an IPO?

Sometimes there is a perception that you have to be far along your journey before considering a public listing. We're a fast growing organisation, we're still pre-profit – but there is a lot of investor demand for high growth companies who want to list.

Romi Savova is CEO of PensionBee, which she founded in 2014 to simplify pension savings in the UK, following a harrowing pension transfer experience of her own.

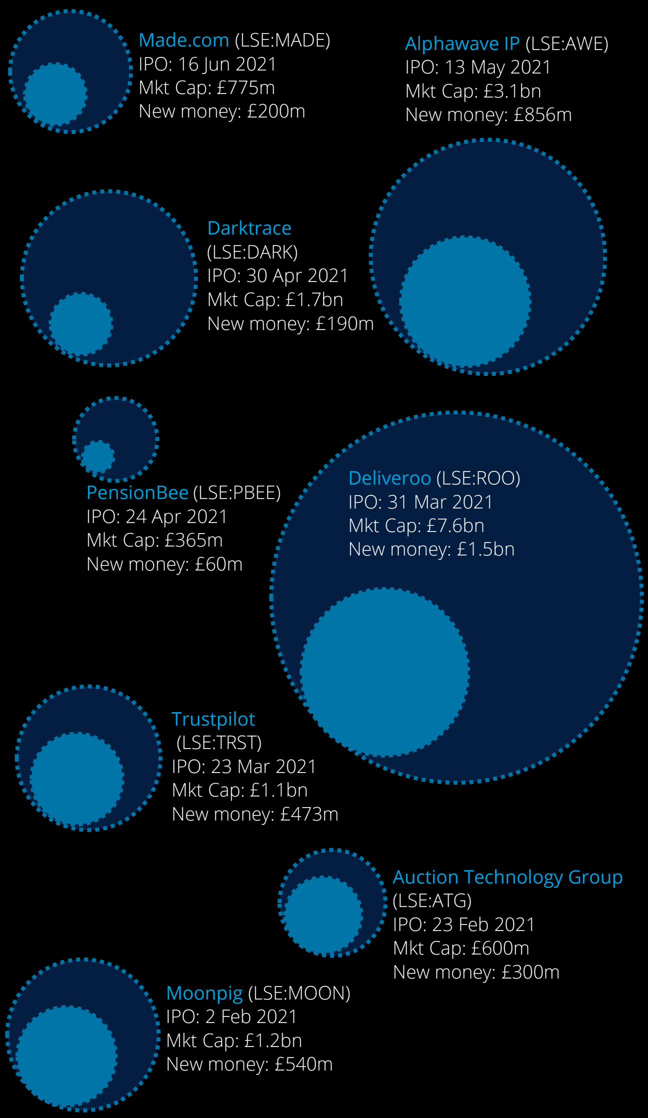
Now one of the UK's leading online pension providers, PensionBee (LSE:PBEE) floated on the High Growth Segment of the London Stock Exchange Main Market in April 2021, with a valuation of £365m.

https://www.pensionbee.com/

The technology high growth sector | Hot topics

The wave of tech listings in the first half of 2021 has immediately changed the face of the UK listed tech world, and with a pipeline of potential IPOs to come including consumer tech, fintech, health tech, and AI.

Selected tech IPOs during H1 2021



Source: London Stock Exchange and company announcements

A record first half to 2021

The first half of 2021 has seen a record volume of UK tech listings, with a particular focus on high-growth companies. High profile examples include Deliveroo, Trustpilot, Moonpig, PensionBee, Darktrace, and the direct listing of Wise in July.

This has had an immediate impact on the face of the UK listed tech world, and a raft of household names – from across consumer tech, fintech, health tech, and AI – rumoured to be considering UK IPOs in the coming months.

UK investors shifting focus

Driving this boom in activity appears to be a range of key macro factors, including the accelerated transition to all things digital driven by COVID-19; significant global valuations, both public and through further private funding rounds; and growing investor appetite for high growth companies challenging the traditional rule of thumb that UK investors are only interested in already profitable businesses.

The continuing demand for high growth opportunities across the pond, and significant stock market gains on major US tech stocks, is driving UK investors to shift emphasis and demonstrate demand for the sector in the UK.

Options to consider when listing

Tech and high growth companies have also been leading the way in innovative listing approaches, beginning with The Hut Group's 'golden share' model in Autumn of 2020 which received extensive media coverage at the time. This has since been followed by the likes of Deliveroo's dual class share structure, and the direct listing undertaken by Wise.

This increasing range of alternatives to the typical Premium UK listing can already be seen in the upcoming pipeline. Lord Hill's review of listings is also evaluating the changes which could be made to increase the global competitiveness of London as a listing destination for high growth businesses.

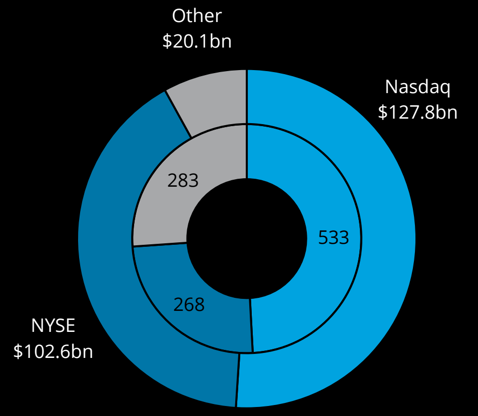
Key considerations for a UK IPO

- Equity stories are as critical as ever: forecasts, strategies, and plans to scale must be clear, achievable, and demonstrable.
- Listing windows are likely to be crowded, making the ability to move and deliver to the desired timetable absolutely critical.
- The key factors which regularly lead to timetable delays can be mitigated through a range of long lead time activities which can be carried out before IPO, affording greater flexibility closer to the listing window.
- The most fundamental factor is ensuring adequate resourcing for the increased demand on management teams, in order to not only maintain business as usual ("BAU") while running the IPO process, but also preparing for life as a listed company.

The US market for SPACs | Listing options

SPACs have been a feature of the US markets for about a decade, but have received wider attention following the extraordinary boom in SPAC IPO activity during 2020, which saw over 200 US SPAC IPOs in just the second half the year, followed by nearly 300 in the first quarter of 2021. That pace was abated in the second quarter of 2021, following actions taken by the SEC to cool the market, along with growing concerns of underperformance and their broader business model.

SPACs issued since 2012 by market



Source: Refinitiv Eikon (updated 28 Jul 2021)

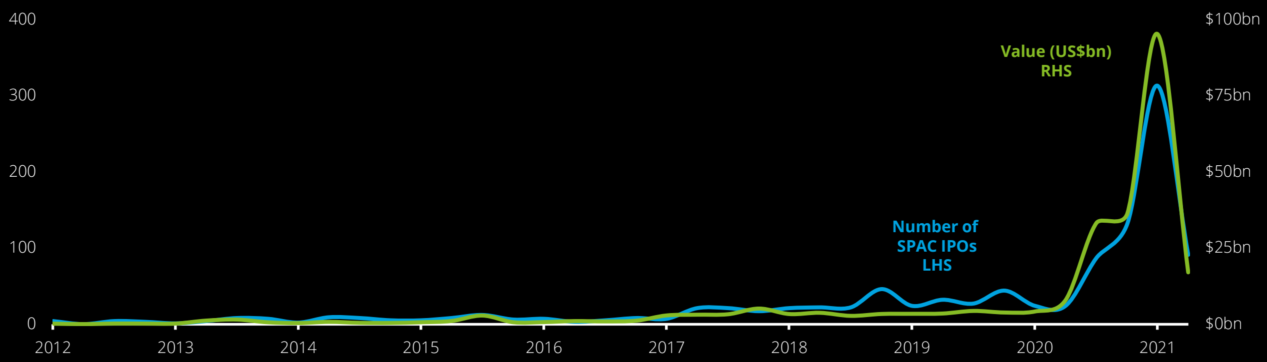
What is a SPAC?

A SPAC (Special Purpose Acquisition Company) acts as a 'blank cheque' company to raise funds through an IPO to subsequently invest in one or more target businesses. As such, it is:

- a company with no commercial operations;
- formed specifically for the purpose; and
- generally has two years to complete an acquisition ("de-SPAC") or else return the funds to investors.

Typical sources of funding include the founder or sponsor; institutional & retail investors through the IPO; and follow-on funding from Private Investment in Public Equity ("PIPE") investors, as appropriate once a target is identified.

SPACs issued globally by quarter since 2012



Source: Refinitiv Eikon (updated 28 Jul 2021)

Benefits of a SPAC listing

- Certainty of consideration and pricing: unlike traditional IPOs, companies can negotiate the terms of a SPAC acquisition much earlier in the process.
- Reduced timelines: while the de-SPAC process is quicker as it doesn't involve the sale of equity, many of the normal IPO processes still substantially apply (e.g. SEC filings).
- Potential strategic partnership: some SPACs will provide experienced leadership teams which could be of benefit to the acquisition targets.

Disadvantages of a SPAC listing

- High cost of equity: the 20% of SPAC capital sought by sponsors is subsequently invested into the target company, resulting in a dilution of equity upon listing for the target shareholders.
- Overvalued transaction: the strong incentives to find a deal within the prescribed timeframe can lead to diminished returns for investors through overvaluation of target business, or a lowering of standards in the process of executing the deal.
- Premature listing: despite work done to prepare and check a target for its public readiness, it may nonetheless be an inappropriate time for listing, especially where sufficient governance and internal controls are not in place.

Are SPACs coming to the UK and Europe? | Listing options

European equity capital markets have seen minimal SPAC activity, with 26 SPAC IPOs in London, and a further 42 onto European bourses since 2012. The regulatory changes on the back of the Lord Hill review, and subsequent FCA consultation, have now been announced and are expected to open up a SPAC market in London from the Autumn.

SPACs in the UK

While there was no explicit barrier to a SPAC listing, the UK differed from other major markets – notably the U.S. and many continental European markets – in that the previous UK Listing Rules included a presumption that a listing of a shell company would be suspended when a target acquisition is announced or leaked, meaning a SPAC listing would de facto be suspended at the point that it identifies an acquisition target. The result is that the UK has seen only a handful of SPAC listings over the years.

The UK Listings Review (March 2021) chaired by Lord Hill, and subsequent FCA consultation (May 2021), proposed changes to improve the competitiveness of London as a listing market.

The changes are designed to benefit SPACs which can achieve sufficient scale to have experienced management and advisors, and the ability to attract institutional investors and the increased scrutiny they will bring to the investment proposition.

On 27 July 2021 the FCA published the final rules and changes to its Listing Rules for certain SPACs. The final rule changes are largely the same as those proposed in the FCA's consultation paper.

The revised regulation is effective from 10 August 2021, which should therefore see a SPAC market emerging in the UK during the Autumn.

Key changes from the FCA

The FCA's aim is to provide more flexibility to larger SPACs whilst also establishing robust standards and governance requirements that it considers to be beneficial to both investors and issuers. Key changes include:

- Removal of the requirement to suspend trading in the shares when an acquisition is announced or leaked.
- Minimum gross cash proceeds on IPO of £100m (reduced from the £200m originally proposed).
- Ring-fencing of capital raised from public shareholders to either fund an approved acquisition or be returned to shareholders. Deductions are permitted for agreed running costs of the SPAC.
- Time limit on operations, requiring the SPAC to find and acquire a target within two years of admission. This can be extended by up to 12 months, subject to approval by public shareholders, and by up to 6 months without shareholder approval where an acquisition agreement has been entered into but not completed, provided that any such extension is announced in advance.
- Approval required for any proposed acquisition by the board of directors and shareholders.
- A "redemption" option allowing investors to exit a SPAC prior to completion of an acquisition if they are unhappy with the target or final terms of the deal.
- Disclosure requirements around conflicts of interest, and measures to prevent voting on deals by conflicted board members.

An interview with Steve Oliver | CEO and Co-Founder, musicMagpie

"Build a team around you to ensure the business doesn't suffer while you are spending most of your time on the deal."

Why did you choose to IPO your business?

The main attraction of an IPO was the access to capital that it offered us to enable us to fund our two big strategic projects: our new monthly rental subscriptions scheme; and the introduction of our new buying kiosks in ASDA supermarkets to make it even easier and quicker to sell your old phone to us. It also significantly raised our brand profile with consumers and was a fantastic opportunity to ratify our ESG qualities as the UK's largest mobile phone recycler.

Why was now the right time, during a pandemic?

We were fortunate that as a pureplay online business we were a beneficiary of the change in consumer dynamics brought on by the pandemic. On the sell side, people were using their time at home to declutter and sell things to raise money, whilst demand for consumer tech and entertainment products also increased as people were working from home more and looking to stay connected with loved ones.

The other aspect was the increasing resonance of sustainability, and ESG generally, amongst consumers and investors. As a recycling business, this has always been a key element of what we do, but now it became a core positioning for us as a champion for both consumers and the environment, and reflected prominently in our refreshed logo and branding of being 'smart for you and smart for the planet'.

Why London, and AIM in particular?

We considered a number of options – including SPACs, which we quickly decided were not for us – and in the end it felt like the right thing for us and the business to stay with a London listing, being a proud UK business.

As a fast-growing tech business, AIM was the market which most closely aligned with where we were positioning ourselves with investors. Our proprietary tech is the secret sauce of our business, and alongside the trust that consumers have in our service and brand, it drives the relationship with our 7m customers.

What did you learn from the experience?

It's about the importance of the story, distilling the key messages so they can be easily articulated and understood. We typically had under an hour with each investor so it was essential to keep it as clear and simple as possible.

We also had to adapt to the experience of conducting investor meetings over video, which can sometimes feel frustrating compared with in person meetings where you can more easily purvey your personality as people and as a business. Having someone like Deloitte on our side enabled myself and the management team to focus on the investor presentations, while they managed the workstreams and made sure everyone involved was coordinated and moving forward.

What advice would you give to other companies considering an IPO?

This sounds like basic corporate finance, but don't underestimate the amount of time and energy that the transaction will absorb. I can't recommend enough building a team around you to ensure that the business doesn't suffer while you are spending most of your time working on the deal.

We effectively established two teams: myself and Ian (our CFO) who were leading on the transaction, while our colleagues focused on running the usual day-to-day business, although we clearly touched base with each other on a regular basis!

Steve Oliver is Group CEO of musicMagpie, which he co-founded with friend Walter Gleeson in 2007 from his garage in Stockport, Greater Manchester.

Now the UK's biggest mobile phone recycler, and the world's biggest seller in the history of both eBay and Amazon, musicMagpie (AIM:MMAG) floated on London's AIM market in April 2021, with a valuation of around £208m, raising £95m for shareholders and £15m of primary capital for the business.

https://www.musicmagpie.co.uk/

Dual Class Share Structures | Listing options

Typically associated with the US market, there is increasing interest in dual class share structures ("DCSS") amongst companies listing in the UK – particularly for high-growth, founder-led businesses such as The Hut Group, Deliveroo, and Wise.

Benefits of DCSS

Allows founders or pre-IPO shareholders to:

- retain **control of the company's strategic direction** – particularly during a high-growth phase – disproportionate to their economic stake;
- focus on **value maximisation**, **innovation**, and the **long-term health** of the company, rather than short-term objectives; and
- maintain a strong defence against takeover attempts.

Overview of DCSS

The listing company will typically have in issue two classes of shares carrying standard (Class A) or enhanced (Class B) voting rights, but usually with equal economic rights, such as in respect to the distribution of dividends.

Key considerations when structuring a DCSS include:

- **Distribution of voting rights**: either as a ratio between Class A and Class B shares (e.g., 1:10 or 1:20), or a defined percentage of votes attached to Class B shares (e.g., 51%).
- **Scope of enhanced rights**: can apply to all votes, or be restricted to specific matters (e.g., a change of control).
- **Sunset provisions**: the structure may prescribe a timeframe – 3, 5, or 7 years are common – after which Class B shares automatically convert to Class A, or the enhanced rights otherwise fall away.
- **Other termination events**: shares with enhanced voting rights are typically restricted to the original holder, thus would automatically convert to Class A if transferred, or on the death of the holder. Automatic conversion could also be triggered by cessation of the holder as a director, voluntary election, or the Class B shares carrying votes below a defined threshold.

"…rules should be changed to allow dual class share structures in the UK Premium listing segment."

Lord Jonathan Hill, UK Listing Review
March 2021

Potential tax consequences

There are a number of potential tax considerations where a DCSS is proposed. These include:

- potential **tax consequences for the founder** on acquiring the enhanced rights;
- complexities in relation to **accessing stamp duty relief** on pre- IPO structuring; and
- potential **capital gains tax** charges.

Whilst these can typically be managed with careful implementation, early consideration is key as part of the pre- IPO structuring work.

The market

Premium listings in the UK do not currently permit DCSS. However recommendations from Lord Hill's UK Listings Review (March 2021), and subsequent proposals from the FCA (April 2021), include the possibility of **allowing DCSS for Premium listed companies**, subject to safeguards designed to maintain corporate governance standards.

By contrast, **there is no prohibition on having classes with different voting rights on the UK Standard segment**. This flexibility has recently been utilised by both The Hut Group and Deliveroo.

DCSS are most commonly associated with listings in the USA. However, other markets have also introduced measures to permit DCSS within certain parameters, including Hong Kong, Singapore, and a number of European countries.

BEIS consultation | Future of controls

Change is on the horizon for effective UK internal controls requirements.

White paper and consultation

In March this year, the Department for Business, Energy & Industrial Strategy ("BEIS") published a consultation white paper on reforms aimed at Restoring trust in audit and corporate governance: proposals on reform.

The document sets out a broad programme for change impacting all market participants: companies, directors, audit committees, investors, auditors, and the regulator.

Included in the proposals is a broadening of the definition of a Public Interest Entity ("PIE"), which could extend the scope of a number of the proposed reforms to include not only the ongoing regulatory requirements of Main Market listed companies, but potentially also larger AIM listed companies (£200m+ market cap), and a significant number of private PIEs.

UK SOX

One of the largest impact areas for companies is the proposed strengthening of internal controls, often referred to as "UK SOX".

The consultation closed on 8 July 2021, with views specifically sought on:

a) directors' annual internal control attestation;

b) expanding the audit report to describe the work the auditor already does on internal control, but without a formal opinion on the directors' annual attestation; and

c) a requirement for the auditor to provide a formal opinion on the directors' annual attestation.

BEIS preferred approach

- Directors should carry out an annual review of the effectiveness of the company's internal controls over financial reporting, make a statement as to whether they consider the systems to have operated effectively, disclose the benchmark system that has been used to make the assessment and explain how they have assured themselves that it is appropriate to make the statement.
- External audit and assurance should be a matter for audit committees and shareholders and would be covered by an Audit and Assurance Policy.
- BEIS also prefers there to be effective powers to sanction directors where they have failed to establish and maintain an adequate internal control structure and procedures for financial reporting.

Actions

Whilst we await further updates form BEIS – as the responses to the consultation are considered – listed businesses and those considering a listing can already begin assessing their current controls framework; how consistently it is applied across their business; and whether it would align to an internationally recognised framework.

For further information on the future of controls, and Deloitte's summary of response on the BEIS consultation, visit our website.

An interview with Bronwyn Knight | CEO, Grit Real Estate Income Group

"The Premium listing puts the golden standard stamp on an emerging markets fund."

grit
Real Estate
Income Group

Why did you choose to step up to a Premium listing?

Emerging markets have seen significant growth in the last few years, as developed markets have slowed. We identified a desire from developed market capital to access emerging market growth, but this was impeded by the perceived complexity of the African continent. There was generally a lack of understanding on where to start, how to negotiate 54 different countries in Africa through a variety of access mechanisms and governance regimes.

We decided to apply for the highly-governed Premium listing in London to provide investors with additional assurance and allow Grit to act as a bridge to access the "last frontier" in investment markets.

The rationale was to access new capital, but also to create a platform for Grit to access investment prospects within the regions where we operate, through corporate action. The Premium listing is a rigorous and consuming process that other businesses may not want to undergo, but by joining Grit they could gain access to developed market investors.

The Premium listing was as a result of demand from our institutional UK investors that really enabled us to achieve the golden standard in governance for an emerging markets-focused company.

We have always been a pioneering pan-African Real Estate business, with the Premium listing being one of many firsts – we were the first African real estate business to list on the London Stock Exchange, and also the first Mauritian-based company to list in London.

Why did you choose London for your primary listing location?

We explored a number of options and felt that the UK market had a better understanding of Africa compared with the US or Asia. Although there is interest from US funds, it is a big leap for them to commit capital currently. South African investors generally invest domestically, or outside of the continent if internationally. The London listing therefore gave us access to a broader and more informed capital pool.

Why did you choose to delist from the Johannesburg Stock Exchange?

Maintaining the Johannesburg listing would have spread our capital structure over three markets – Johannesburg, London, and Mauritius. Two primary listings are already quite onerous in terms of managing the different regulatory requirements, liquidity requirements, and rules for investments from abroad. London offers greater depth, and I am very happy that the overwhelming majority of our South African investors migrated their holdings to either Mauritius or London.

Are there any key learnings you'd like you share from your listing experiences?

We were originally quite naïve and ambitious in our approach, and wanted to apply for a Premium listing from the outset. The management time and intensity involved in this rigorous process should not be underestimated. With hindsight, I would have spent more time on pre-soundings, testing the market, and getting the right advisors on board earlier.

For the main market listing, I feel we spent too much time leading the process ourselves. Engaging with Deloitte on the Primary listing was a breath of fresh air – they brought experience and commerciality, and a strong understanding of the markets in Africa where we operate.

Bronwyn Knight is the CEO of Grit, a leading pan-African real estate company that she co-founded in 2012.

In February 2021 she led the company's step-up to the Premium segment of the London Stock Exchange. Grit (LSE:GR1T) had originally listed in the LSE's Standard segment in 2018, and maintains a secondary listing on the Stock Exchange of Mauritius where it is a constituent of the SEM100 index.

https://grit.group/

Unlocking corporate value | Demergers

As highlighted in the Deloitte CFO survey, management teams are increasingly looking to equity markets to fund their growth strategies, with a particular focus on M&A as a way to capitalise on the resurgent economic growth post-pandemic. Demergers provide an effective strategy for companies looking to unlock shareholder value and optimise returns on undervalued corporate assets, with a range of options to monetise the demerged entity including an IPO or sale.

Creating value

There are a number of reasons demergers drive increased shareholder value:

- Core competencies – by building and demerging a business focussed solely on its core competencies, the demerged business is not impacted by overheads or underlying performance of the existing business/sector.
- Management accountability – through providing greater accountability and incentives to management, the demerged business can take a more flexible approach to driving revenue and reducing cost.
- Access to capital – by providing easier and direct access to capital markets, the demerged business will have the ability to optimise the underlying debt / capital structure of the business.
- Transparency – operating and reporting as a demerged business provides greater transparency to investors and enables a more accurate valuation.

Delivering successful demergers

- Demergers are complex undertakings. However, there is a proven approach to delivering successful demerger transactions.
- Key priority areas need to be considered early on in the process in order to build a critical roadmap for execution, including:
  - defining the perimeters of the separation;
  - constructing an attractive investor story, evidenced through a track record of delivery; and
  - creating a robust separation plan.
- To move at speed in getting to the completion of a demerger, the demerged business does not necessarily need to be entirely separated. At the point of demerger, businesses are required to be independent, have established control and put in place robust transitional or long term service agreements.

Some recent European demergers

Vantage Towers	Demerger and IPO of Vodafone's towers business.	Telecoms	Frankfurt	2021
Traton	Demerger and dual listing of Volkswagen's truck and bus division.	Automotive	Frankfurt / Stockholm	2019
DWS	Demerger and IPO of Deutsche Bank's minority stake in Deutsche Asset Management.	Financial Services	London	2018

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Key priority areas need to be considered early on in the demerger process in order to build a critical roadmap to allow for successful execution.

A proven sequence of phases

Separation	Business stand-up		Demerger	Optimisation
Separation Operations, people, and assets directly associated with the demerged business are separated.	**Management** Management team in place, visibly driving the strategic direction of the demerged business.	**Operational independence** Organisation design in effect with support functions in place to support the operations of the independent demerged business.	**Demerger** Completion of demerger. Potentially accompanied by a monetisation event (i.e. IPO or sale of the demerged business).	**Post demerger optimisation** Transition to long-term future operating model.

Key priorities and considerations

1. **Develop the independent business model and investor story**
Start with understanding the key value drivers of the business from the perspective of the target investors. Subsequently, design the business end state with these value drivers in mind.

2. **Agree the perimeter**
Clearly identify the assets, contracts, people, processes and systems that will move across to the demerged business in order to create the most value for each of the businesses.

3. **Define a plan that prioritises speed to completion**
Identify long lead time items and key decisions early. Focus on activities that are required to have the business ready for completion (and monetisation, if any), rather than optimising the business model and separating out the demerged part of the business to be fully standalone pre-completion.

4. **Align on a balanced future commercial relationship**
Defining the ongoing commercial relationship whilst striking an appropriate balance between the existing and demerged business is critical and goes to the heart of value for both businesses.

5. **Prepare a robust historical financial track record**
The historical financial data will be used as evidence to support the newly created business plan and therefore be thoroughly interrogated as part of the investors' due diligence procedures on the valuation of the demerged business – this is typically a long lead time activity and ensuring that the underlying data required to support the historical track record is available, accurate and robust is crucial.

6. **Delivering the demerger programme**
Demergers are a complex undertaking requiring a strong central transaction management team to align all key stakeholders and advisors around a single timetable and to bring all 'pieces of the puzzle' together.

Unlocking corporate value | Demergers

Implementing effective transaction management will help you to efficiently navigate the challenges and mitigate the risks that are inherent in complex demerger programmes

Demerger programme challenges

Complex and interdependent workstreams with tight timescales.

Lack of transaction experience amongst key stakeholders and management.

Time and resource constraints of managing demerger and monetisation requirements while maintaining BAU.

Alignment of an extensive range of stakeholders and interests.

Key success factors for a demerger programme

A strong and agile demerger transaction management team at the centre. With relevant expertise and capable of driving the programme, diving into topics to unblock risks and issues, and maintaining focus on the key value-driving initiatives in addition to the structural and regulatory requirements.

An overarching demerger programme governance structure. Focussed on linking interdependencies across all functional areas and workstreams, aligning stakeholders and advisors, and ensuring quick and informed decision making.

The critical path should be identified as early as possible. Identify up front any corporate structuring or legal matters which may dictate transaction timelines so as to ensure that key decisions are taken, and escalated as needed.

Establish dedicated teams to drive the two distinct phases of the programme:

- a ring-fenced team to drive the transaction, including both existing and demerging business stakeholders; and
- a team to stand-up the demerged business – primarily led by the future demerged management team.

Our services | Deloitte Equity Capital Markets

Our dedicated team of over 120 ECM professionals provide specialist expertise across the lifecycle of an IPO, class transaction, or equity fundraising. We have had a role in two thirds of recent Main Market transactions, helping UK and international businesses to maximise shareholder and stakeholder value, and navigate each stage of the process of raising equity capital in London and the global capital markets.

IPO readiness

- Help companies prepare for an IPO or 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 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), and working capital reporting.

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.
- Distributable reserves considerations.

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;
  - preparation of financial information or track records;
  - governance and internal control enhancements;
  - complex modelling;
  - integration/separation considerations.

Transaction management

- 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.

Remuneration

- Advice on executive and employee remuneration plans.
- Benchmarking remuneration structures against PLC norms.
- Implementation and documentation of remuneration plans.
- Unwinding of existing remuneration plans and share option schemes.

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