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ECM update | Winter 2021/22

Financial Advisory

A foundation for sustainable growth

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Welcome to the 11th Deloitte ECM update

2021 was an exceptional year for London's equity capital markets, with the IPO bull run accelerating through the second half to bring the year's total to 126 IPOs – 54 of which on the Main Market – raising a combined £16.5bn, with a further £36.7bn raised through follow-on transactions. The year also saw considerable momentum in reforming London's listing regime to improve its competitiveness and attractiveness as a listing location for innovative and high-growth businesses, with early successes highlighted by the year's tech IPOs.

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Welcome to this 11th edition of the Deloitte 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.

An exceptional year for London's equity capital markets, the pace of IPOs coming to market accelerated in the second half of 2021 which recorded 77 of the year's 126 IPOs, including blockbuster listings of well-known brands such as **Bridgepoint**, **Oxford Nanopore Technologies**, **Pod Point**, as well as the direct listing of **Wise**. Despite mixed individual performance, our **IPO barometer** shows that IPOs have seen average share price growth of 9.9%, outperforming the FTSE 350 benchmark over the equivalent periods.

Technology, and tech-enabled, businesses continue to attract investment, with **over a quarter of the equity capital raised going to the Technology, FinTech, HealthTech, and Consumer Tech sectors**. Key factors underpinning this trend include the accelerating changes in consumer behaviour and business models as a result of the COVID-19 pandemic, and the comparative macroeconomic stability following the easing of previous headwinds relating to Brexit uncertainty and the early months of the COVID-19 pandemic.

Looking forward through 2022, there is a **considerable pipeline of companies considering a London IPO** – some of which have been deferred due to the broader macro volatility combined with an element of 'IPO fatigue' towards the end of 2021. For companies already on the market, **confidence for investment and expansion remains high** as highlighted in our CFO survey. Macro trends, including the emerging landscape for technology and changing consumer behaviour, continue to drive high levels of M&A, demergers, and other corporate transactions.

Our report also highlights the **increasing focus on ESG from investors, regulators, and the wider market**. Having a clear ESG strategy and equity story is increasingly critical for any business, whether considering an IPO or already listed in London.

In the foreword to this report **John Glen MP, the City Minister, sets out the Government's vision for the future of the City of London** as a competitive and attractive global financial centre, saying: "*we have some of the most liquid and dynamic capital markets for companies to list, raise funding and do business all within a safe, supportive, and growth-friendly ecosystem. And there are opportunities beyond*."

Starting in early 2021 with the review of the London listing regime led by **Lord Hill, whom we exclusively interview in this report**, momentum has continued to build throughout the year with a series of reforms to the UK's listing regime to improve its competitiveness as a global equity market, and enhancing the attractiveness of London as a listing location for innovative and high-growth businesses. Changes already introduced include **decreasing free float requirements from 25% to 10% and allowing targeted dual-class share structures** ("DCSS") onto the Premium segment of London's Main Market, as well as measures to allow London to compete in the global SPAC market. Further reforms are expected during 2022 with ongoing reviews and consultations relating to both IPOs and secondary transactions.

There was a marked resurgence in U.S. SPAC activity in the last quarter of 2021, following the dramatic reduction early in the year, with a total of **701 SPAC IPOs globally raising over US$160bn**. This has led to a **record number of SPACs still seeking to complete their acquisition ("de-SPAC")** within their specified timeframe. The estimated US$190bn still in the market is expected to drive competition and pricing in the coming year.

While the vast majority of SPAC capital continues to be raised on U.S. markets, Amsterdam in particular has seen strong growth – representing nearly half of the European SPAC market in the year – with the full effect of the Financial Conduct Authority's ("FCA") measures implemented in August 2021 yet to have significant effect.

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

Foreword | John Glen MP, Economic Secretary to the Treasury and City Minister

John Glen MP was appointed Economic Secretary to the Treasury and City Minister on 9 January 2018.

He was Parliamentary Under Secretary of State for the Department for Culture, Media and Sport from 14 June 2017 to 8 January 2018.

He was Parliamentary Private Secretary to Philip Hammond from July 2016 until June 2017.

The tone set by HM Government and the regulators has helped to encourage a boom in IPO activity in 2021 – how do you see this continuing as we enter 2022?

The UK has a strong track record as a place for the world's most successful companies to list, and I'm glad to see that 2021 has been a bumper year for UK IPOs. As we continue our recovery from the pandemic – and deliver ambitious reforms to sharpen the competitiveness of our listings environment and the wider financial sector – I'm optimistic that we can continue to attract the best and brightest global companies.

Which underlying factors contribute to the UK's attractiveness as a capital market – how can these be preserved?

The UK's capital markets, which are positioned at the centre of the international financial community, are among the most deep, liquid and transparent in the world. Our diverse and sophisticated investor base share in the returns of hundreds of listed companies, providing dynamic pools of global investment capital.

But we are not resting on our laurels. We're driving forward a range of reforms – for instance, our landmark Wholesale Markets Review, which closed on 24 September 2021, includes changes to our equity, fixed-income, derivative and commodities markets regimes, as well as to rules on market data. These reforms will deliver a rulebook that is fair, outcomes-based and supports competitiveness, while ensuring the UK maintains the highest regulatory standards.

Lord Hill's proposed reforms to the UK's listing regime have received widespread positive responses – what would be your priorities to enhance the UK as the listing destination of choice for innovative and high-growth businesses?

In April 2021, the Chancellor confirmed that we would take forward all the recommendations Lord Hill made to the Government. Since then, HM Treasury has carried out a fundamental review of our prospectus regime, launched the UK Secondary Capital Raising Review, and consulted on adding new growth and international competitiveness secondary objectives for the FCA. The FCA has also moved quickly in response to Lord Hill's review, removing barriers to listing via SPACs, reducing the free float requirement from 25% to 10%, and facilitating dual-class share structures within premium listing.

My priority going into 2022 is to make more progress on our reforms, and to keep looking for further opportunities to make the UK even more attractive for these businesses. There will always be more we can do, and I'm determined to meet that challenge.

How do you see the role of London's equity markets in driving growth in all parts of the UK post-pandemic and post-Brexit?

Our equity markets enable UK and international companies to access the finance they need to grow, fund innovation and manage risks. That in turn powers growth and creates jobs across the whole country, playing a crucial role in levelling up the regions and nations of the UK. Our markets also allow investors – including retail investors right across society – to benefit from the growth of public companies. Having left the EU, we can tailor our rules more closely to the needs of the UK market, enhancing our competitiveness while maintaining the high, internationally respected standards for which the UK is known for.

What would be the one key message for the investor community, or businesses looking to raise funding?

The UK's capital markets are open for investors, institutional and retail, from the UK and around the globe. Underpinned by high-quality regulation and strong standards of disclosure and transparency, our world-renowned markets enable investors to share in the growth of hundreds of public companies.

For business, it is the same on the other side of the coin: our attractiveness to investors means we have some of the most liquid and dynamic capital markets for companies to list, raise funding and do business – all within a safe, supportive, and growth-friendly ecosystem. And there are opportunities beyond our public markets too. Long-term investment can benefit investors and the UK economy, whether it is helping to drive the recovery from the pandemic, modernise UK infrastructure or support the transition to net zero.

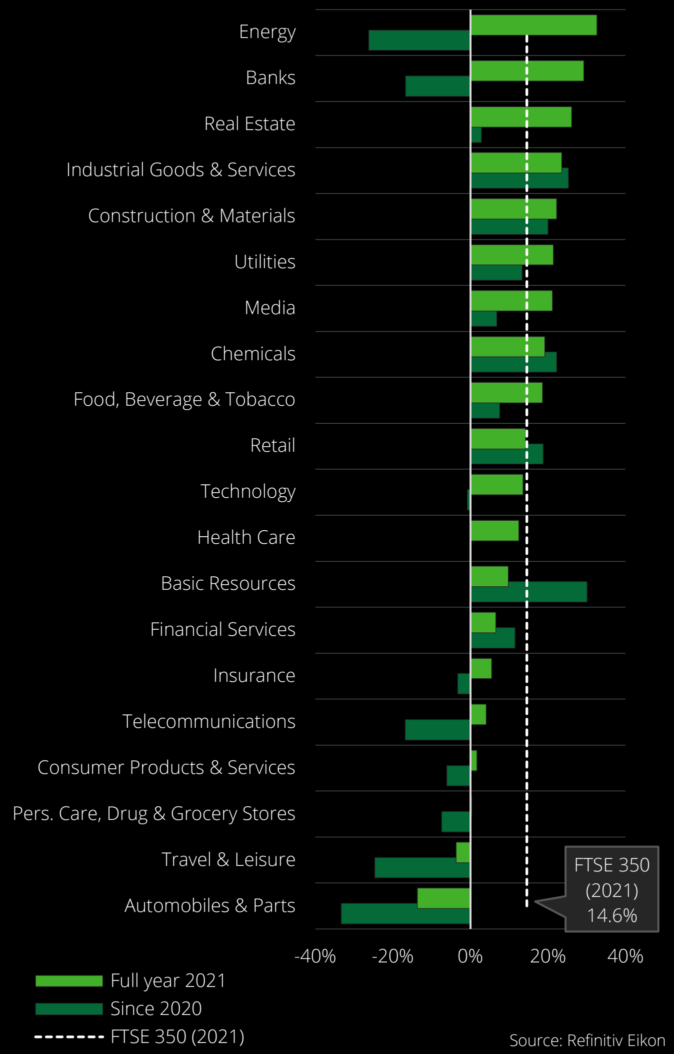
Following the FCA's work to introduce the long-term asset fund structure, and my work alongside Andrew Bailey and Nikhil Rathi to break down the barriers to this type of investment through the Productive Finance Working Group, now is the time for investors to consider the opportunities presented by investing in long-term UK assets.

Continuing towards growth | UK ECM market update

Global markets closed out 2021 on a high, with most having experienced steady growth throughout the year. The FTSE 350 achieved overall growth of 14.6% during the year with growth seen across industry categories – led by energy, banks, and real estate – although a few still remain below their pre-pandemic levels.

Industry performance vs. FTSE 350

4 Jan 2022 vs 4 Jan 2021 / 2 Jan 2020



Source: Refinitiv Eikon

Prior to the rocky start in 2022, the majority of global markets **closed out 2021 above their mid-year levels**, continuing their post-pandemic trends, and reflecting **investors focus on growth**.

Although muted in a global context, the **FTSE 100 grew by 14.2% during the course of 2021** finally recovering to its pre-pandemic range in mid January 2022.

Performance was slightly stronger in the broader FTSE 350, which achieved **overall growth of 14.6%** during the course of 2021. There was a healthy spread of this growth between industries, led by **Energy** (32.7%), **Banks** (29.2%), and **Real Estate** (26.1%). Only two of the categories saw negative absolute growth, **Automobiles & Parts** (-13.7%) and **Travel & Leisure** (-3.7%), although a number still remain below their pre-pandemic levels, including Energy and Banks.

The Cboe volatility index (VIX) spent **most of 2021 below 20 – which is generally associated with stable, stress-free periods in the markets**, and optimal for IPOs. Recent months however, have seen a series of spikes – a couple of which reaching 30, indicating increased uncertainty and risk – initially as the global economy braced itself for the **uncertainty of the Omicron variant in late 2021**, and more recently **the ongoing political tensions in Ukraine**.

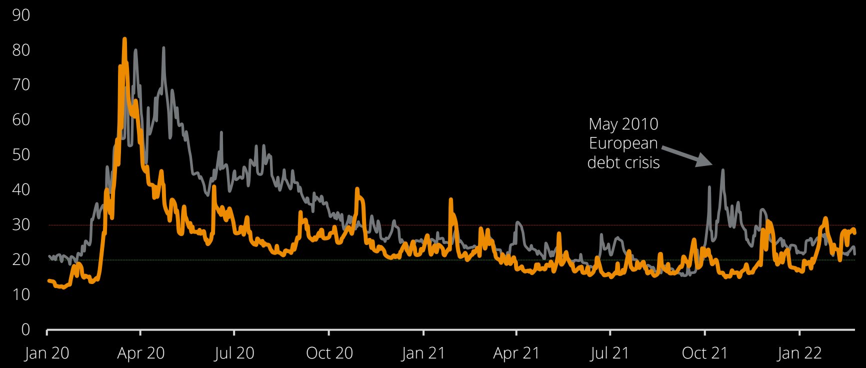
Performance of selected global indices since 2020

1 Jan 2020 = 100

Source: Refinitiv Eikon (updated 23 Feb 2022)

Cboe Volatility Index (VIX)

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



Source: Refinitiv Eikon (updated 23 Feb 2022)

Equity issuance on London markets | UK ECM market update

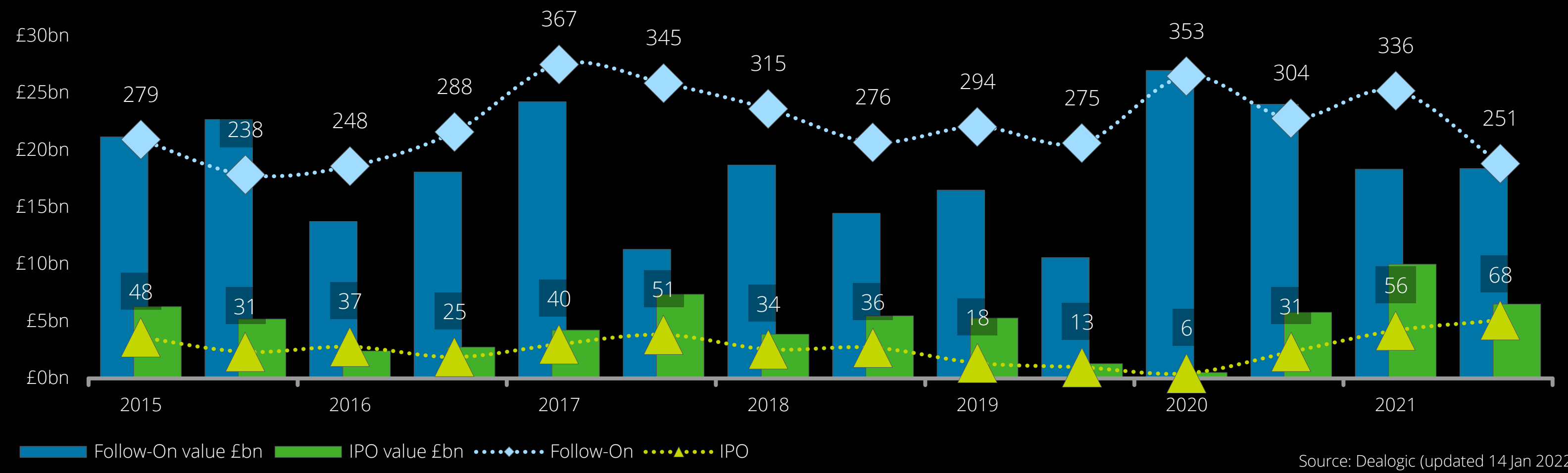
London's equity capital markets have continued to see robust activity in 2021, with a notable shift towards IPOs – in both number of deals and equity raised. There was clear appetite for technology, and tech-enabled, businesses at the IPO stage, while follow-on issuances tended towards the more traditional industries and financial vehicles.

£16.5bn raised through **124** **London IPOs**

1.96x average raised through IPOs annually since 2015

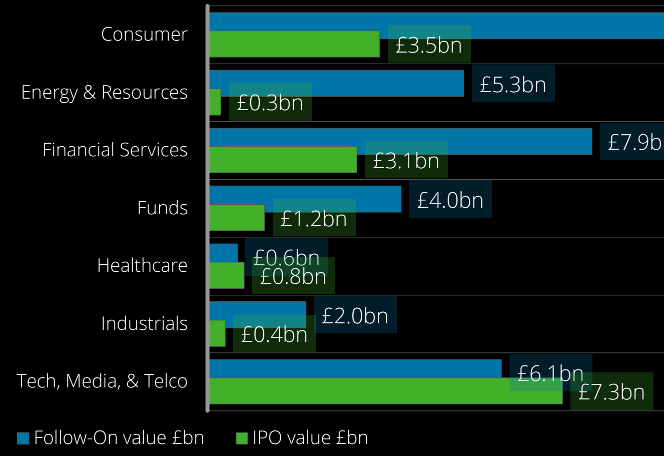
£36.7bn raised in **587** **Follow-On transactions**

London equity issuance since 2015

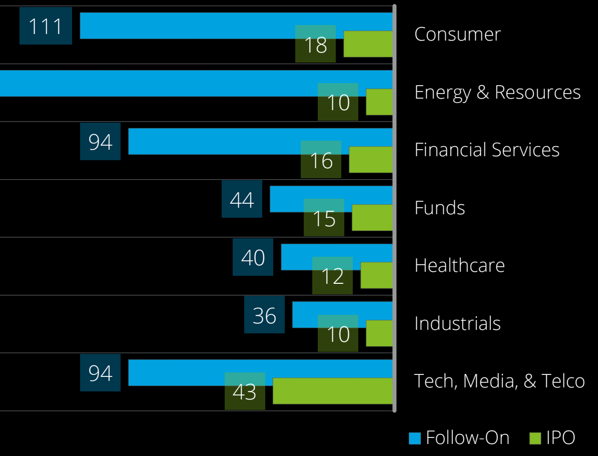


Source: Dealogic (updated 14 Jan 2022)

Equity raised on London markets in 2021 (£bn)



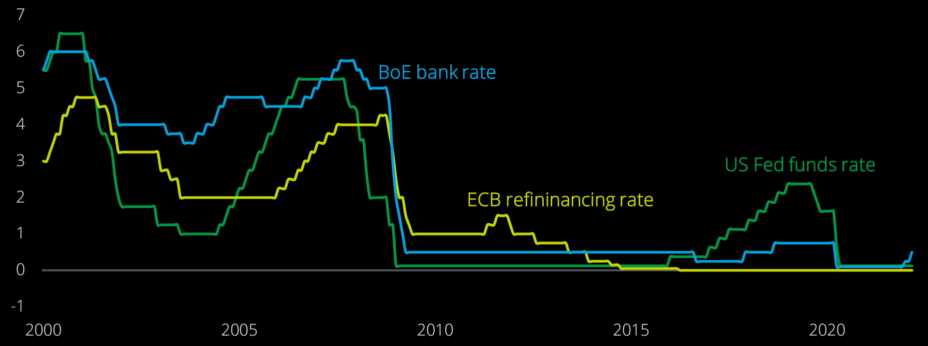
Equity raising transactions on London markets in 2021 (#)



Source: Dealogic (updated 14 Jan 2022)

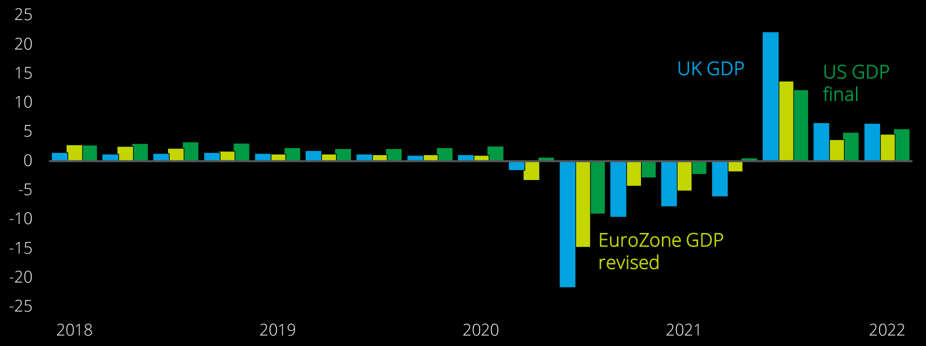
Macroeconomic and financial context | Selected global indicators

Interest rates – selected markets base rates



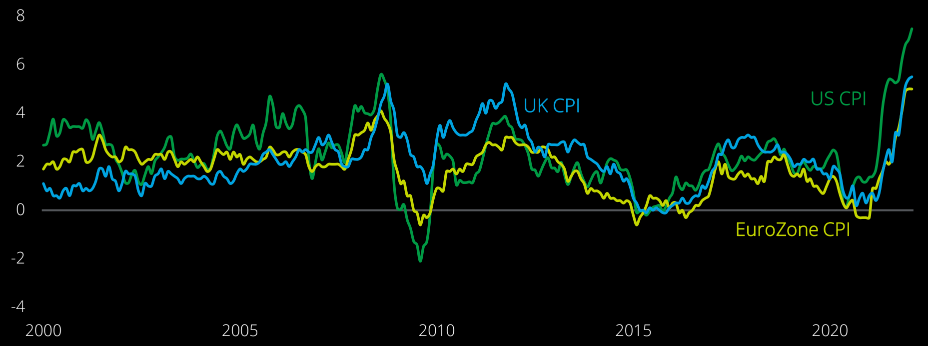
Source: Refinitiv Eikon (updated 22 Feb 2022)

GDP growth (y/y) – selected markets



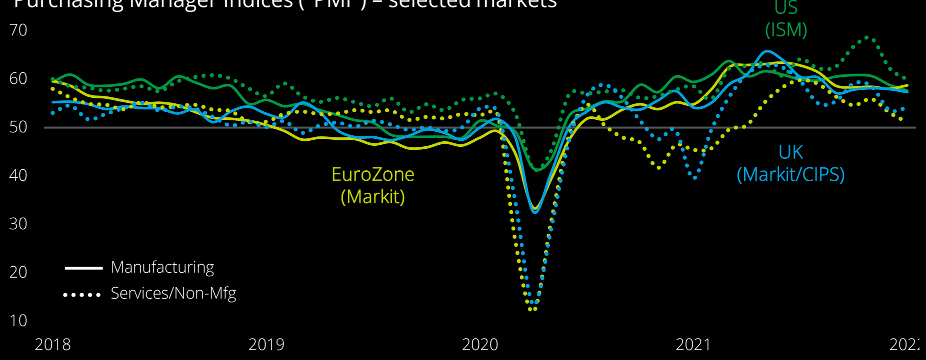
Source: Refinitiv Eikon (updated 22 Feb 2022)

Inflation (change y/y) – selected markets



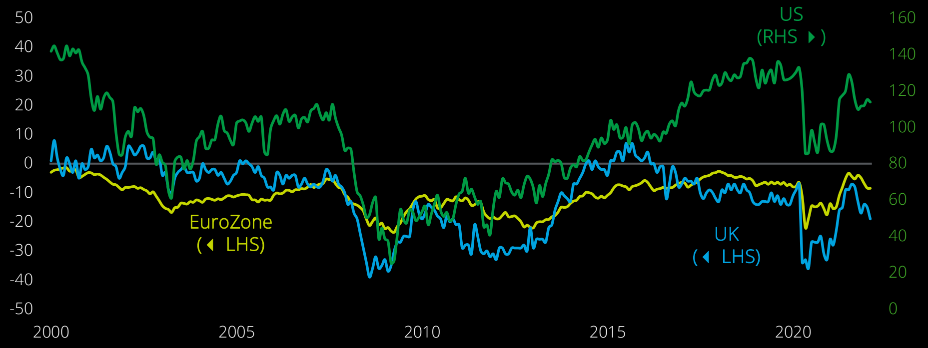
Source: Refinitiv Eikon (updated 22 Feb 2022)

Purchasing Manager Indices ("PMI") – selected markets



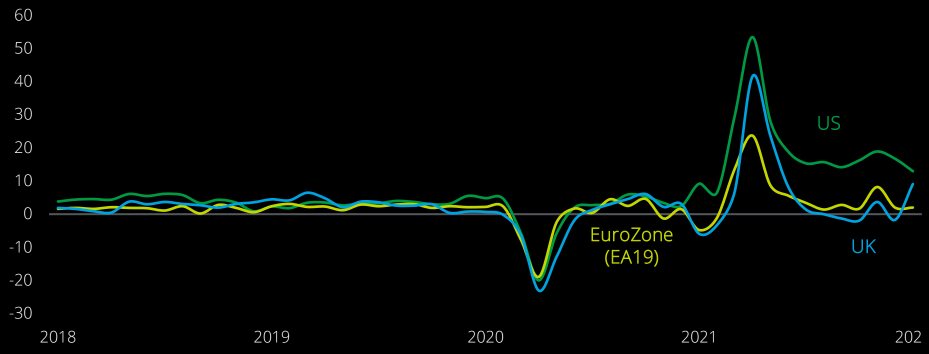
Source: Refinitiv Eikon (updated 22 Feb 2022)

Consumer confidence – selected markets



Source: Refinitiv Eikon (updated 22 Feb 2022)

Retail sales (change y/y) – selected markets

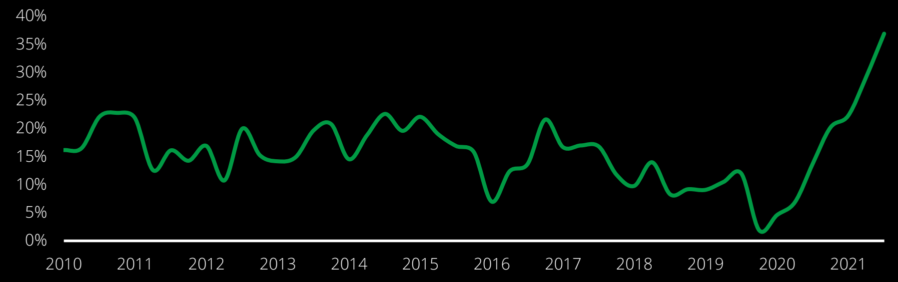


Source: Refinitiv Eikon (updated 22 Feb 2022)

Going for growth | Deloitte UK CFO survey Q4 2021

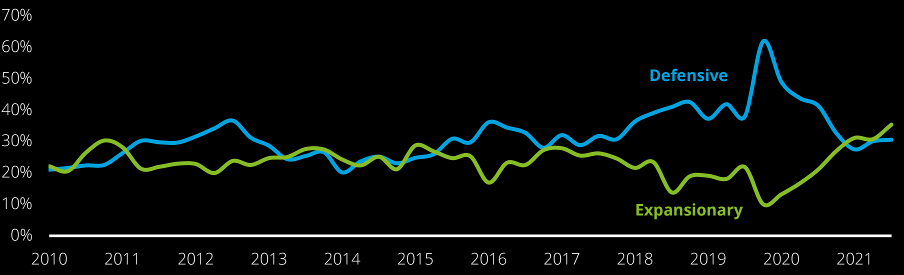
2022 is set to be a year of rising business investment, according to the Chief Financial Officers of the UK's largest companies. A record 37% of CFOs rate increasing capital investment as a strong priority for their business in the coming 12 months – citing growth at home and abroad, along with climate transition as the main drivers of this investment. This is more than just catching up with cyclical demand, with CFOs overwhelmingly expecting to invest more in workforce skills and digital technology over coming years than pre-pandemic.

Increasing CapEx is strong priority for their business in next 12 months



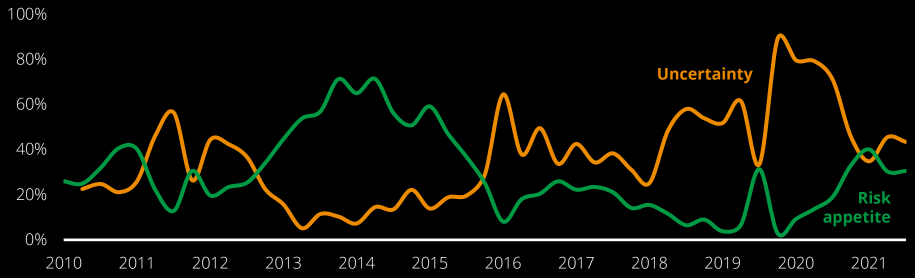
Source: Deloitte CFO survey Q4 2021

Expansionary vs. Defensive strategies



Source: Deloitte CFO survey Q4 2021

Uncertainty vs. corporate risk appetite



Source: Deloitte CFO survey Q4 2021

Taking place in the first half of December 2021, this latest CFO survey was in the backdrop of the emergence of the Omicron variant, the government triggering its 'Plan B' restrictions, and rising inflation. Despite these headwinds, **CFO's perceptions of external uncertainty fell slightly, and corporate risk appetite nudged higher**.

CFOs think the **wider business landscape will change in the longer term** in the wake of the pandemic and Brexit in three important respects. First, this will be an era of **rising labour costs** and surging **business investment in technology**. Second, a **lasting expansion in the size and role of government** is underway, and will be accompanied by **rising levels of business regulation and taxation**. Third, Brexit will be a significant negative for **trade with, and migration from, the EU**.

It is a measure both of the speed of the snap back in activity from the pandemic, and of the scale of the threat today, that **CFOs rate labour shortages as the greatest threat to business**, ahead even, of the COVID-19 pandemic in second place.

Like equity markets, which rallied into the new year, CFOs seem to be looking past Omicron, and **plan to run their businesses for growth in 2022**. CFOs believe that the pandemic and Brexit will be followed by lasting structural change and rising investment, above all in people and technology. It is perhaps for these reasons that **CFOs expect productivity growth over the next three years to outperform pre-pandemic trends**.

Corporate priorities for the next 12 months

- 50% ▲ Introducing new products/services or expanding into new markets
- 41% ▼ Increasing cash flow
- 37% ▲ Increasing capital expenditure
- 36% ▲ Reducing costs
- 19% ▼ Expanding by acquisition
- 16% ▼ Reducing leverage
- 12% = Disposing of assets
- 11% ▼ Raising dividends or share buybacks

Arrows indicate change from Q1 2021 CFO survey

Jonathan Hill is a British Conservative politician and former European Commissioner for Financial Stability, Financial Services and Capital Markets Union. Hill was Leader of the House of Lords and Chancellor of the Duchy of Lancaster from 2013 to 2014.

In March 2021 Lord Hill led a landmark review into London's listing regime. In it he proposed a range of regulatory and structural changes designed to help level the competitive playing field with other international exchanges and make London a more attractive listing location for tech entrepreneurs and the next generation of large companies.

What were you trying to achieve with your review?

Essentially, to make sure that London remains competitive against other global financial centres. None of our recommendations went beyond what can already be found in competing financial centres in the USA, Asia or, indeed, Europe. So, we weren't trying to seize a competitive advantage by opening up a gap between us and other jurisdictions. We wanted to close a gap which had already opened up.

The background to the Review was that London has been losing market share and missing out on attracting the growth sectors of the future. Between 2015 and 2020, for example, London accounted for only 5% of IPOs globally. The FTSE index reveals that the most significant companies listed in London are either financial or more representative of the 'old economy' than the companies of the future. Apple alone was recently valued at more than the combined value of every company in the FTSE 100.

Although the UK has great strengths in technology and life sciences, too few of the innovations we have seen have led ultimately to UK companies coming to the public markets in London. Today, we can see the possibilities offered by the strong potential pipeline of tech IPOs if we are able to persuade them of the many advantages of listing in London. We cannot afford to miss the opportunity that this represents either for our future as a financial centre or as a source of returns for investors large and small.

The Listing Rules are clearly not the only factor that determines where a company might choose to list, but they are part of the overall competitive mix.

What reaction did you get from the FCA? Were they happy about you recommending changes to their rules?

Well, you might have thought that they would be a bit suspicious of some outsider coming in and poking around, but in fact I found them to be very open-minded and positive about the recommendations. And they weren't just being polite: as you have seen, they moved very fast to implement the recommendations on SPACs and the Listing Rules, actually going further than the Review on changing the free float rules.

Your review received substantial attention in the press and in the City, both at the time and subsequently, with your name still synonymous with the reforms. Did you expect this level of attention?

I didn't really know what to expect, to be honest. But you're right that for something quite technical in nature, it received a lot of attention, and still does. I think that's because it was symbolic of a bigger debate about the future of the City, our place in the world, and the nature of regulation post-Brexit.

To what extent were the changes driven by the greater scope the UK has to set its own regulatory framework outside the EU?

In the sense that Brexit is making us look at ourselves and reconsider our place in the world, then I suppose it provided some general impetus for reform. But the Listing Rules could have been revised by the FCA at any point when we were still in the EU. The main area where we do now have greater scope to make change is in the area of the Prospectus, which was covered by EU rules, and which is now the subject of a bottom-up review by the Treasury, which should lead to legislative change later this year.

But I think that people who believe that the only problem for the British economy came from EU rules and once we left, everyone would with one bound be free, miss the point that a lot of the regulations that silt up business and society are, I am afraid, ones that we have done of our own free will to ourselves.

Is there a single proposal from your review that you would single out as being most important?

Oddly enough, I would pick the one that received the least attention: the proposal that the Chancellor should make an annual report on the State of the City to parliament. Why? Because I hope it will keep the Government's feet to the fire and underline the key point that thinking about your competitive position is a job that is never done. Some people think of regulation as a science, that it is possible for regulators to reach a perfect decision that should then never be revisited. I think of it totally differently, that regulation is a messy compromise of technical expertise, politics and society, that it is in effect a judgement about risk at a given moment in time.

The Rt Hon Lord Hill CBE | … continued

For me, therefore, the ideal regulatory system should be flexible enough to recognise that the appetite for risk changes over time, that society's expectations change over time, that the needs of markets change over time, that there might be unintended consequences of one's actions, and that one should be open to doubt and the necessity of change. Sometimes one might overcook a regulation. Other times one might underestimate risk.

I hope that the annual Report from the Chancellor might keep us alive to the need to remain flexible, to keep our competitive position under review, and maybe above all provide a peg for the City and the market to shape the landscape.

Subsequent to your review, there has been various reforms both enacted and in consultation. Do you think the UK is moving fast enough in making the requisite changes?

I don't think the FCA could have moved any quicker. And the Treasury is also moving speedily on its review of the Prospectus rules. I think that has been noticed in the market. But, as I have argued, I don't think that is now job done.

London has traditionally been proud of having a "gold standard" for corporate governance and regulation of listed businesses. Does this risk being lost as a result of the on-going reforms?

Absolutely not. You need a very well regulated market, with high standards of corporate governance. I don't believe for one moment that the reforms brought forward by the FCA threaten that.

But equally, I don't believe that there is much point in having a gold standard that no one wants to use.

Do you think London will have an active SPAC market as a consequence of the reforms in that area?

That's up to the market to decide. But thanks to the reforms introduced by the FCA, that is now an option that investors have. Before they didn't, so SPACs in Europe were heading to Amsterdam. Now, London is an option too, and indeed the first SPAC under the new rules listed here during 2021.

Key reforms to the London listing regime during 2021

Since the Lord Hill review in March 2021 there has been considerable activity on the part of both government and regulators. A number of reforms have already been enacted with others still in consultation, and ongoing reviews for further reform.

Key reforms enacted in 2021

In December 2021, the FCA enacted reforms to address some of the recommendations by Lord Hill and other reviews. The main changes were:

- The allowance in the Premium listing segment for a targeted form of dual-class share structures ("DCSS") which meet the specified criteria. DCSS were previously only permitted on the Standard listing segment, as highlighted with the recent listings of Deliveroo, Wise, and Oxford Nanopore Technologies.
  - FTSE Russell has subsequently confirmed that DCSS companies will be permitted in the FTSE Indices, subject to standard eligibility criteria.
- A reduction to the free float requirement at IPO on both the Premium and Standard listing segments from 25% to 10%.
- An increase to the minimum market capitalisation threshold for ordinary commercial companies on both the Premium and Standard listing segments from £700k to £30m.

Earlier in the year, the FCA had enacted changes to the regulations for SPACs, notably removing the requirement to suspend trading in the shares when an acquisition is announced or leaked. The aim being to facilitate a London market for SPAC vehicles, similar to those seen in the U.S., subject to certain criteria, including:

- Minimum gross cash proceeds on IPO of £100m.
- Time limit to find and acquire a target of two years (with certain extension options).
- A redemption option allowing investors to exit a SPAC prior to completion of an acquisition.
- Measures to protect against and disclose conflicts of interest, including preventing voting by conflicted parties.

There is anticipation for further reform during the course of 2022, with a number of consultations and reviews currently ongoing.

IPOs continue to outperform the market | The Deloitte IPO barometer 2021

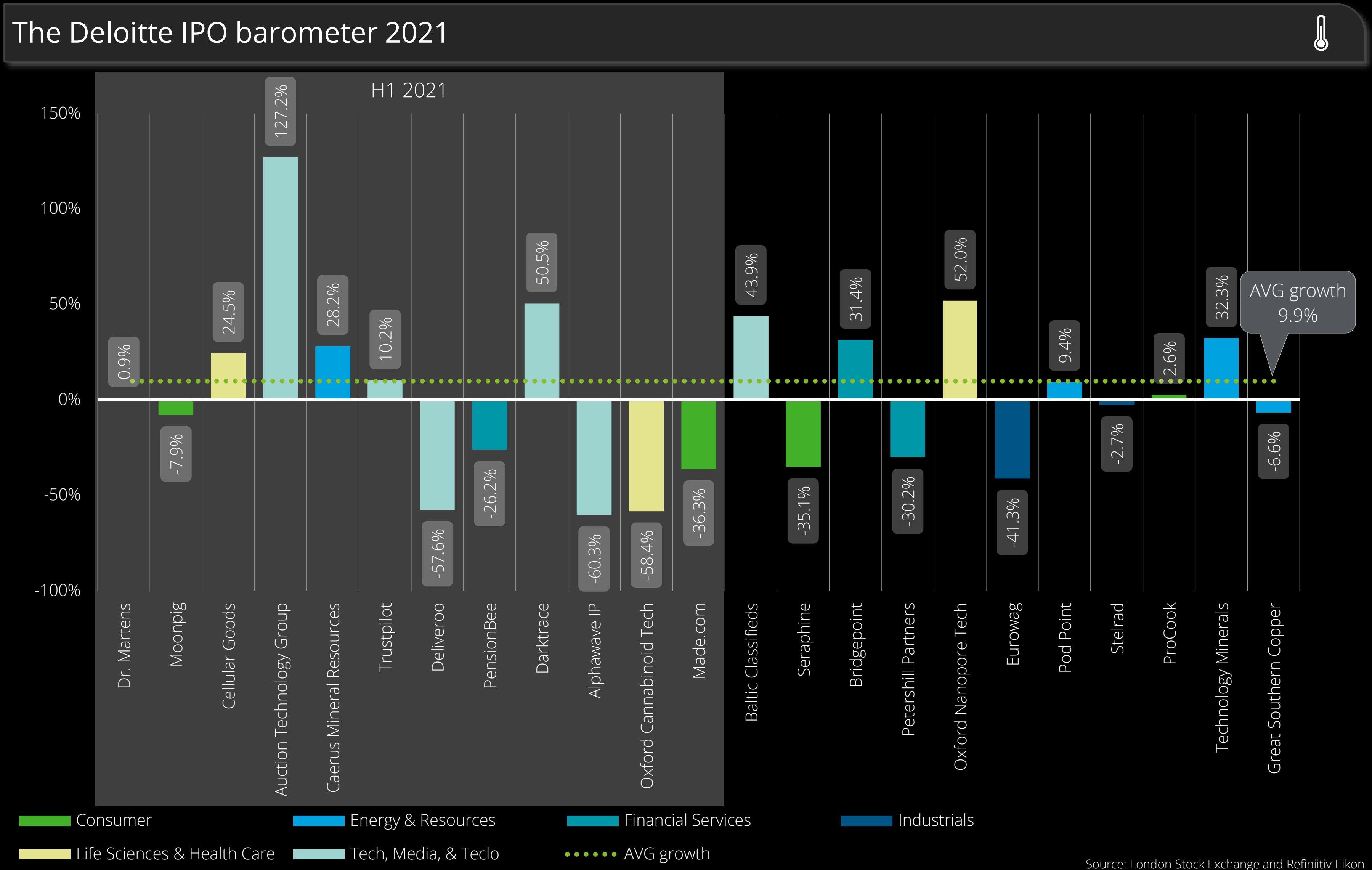
Despite a choppy year for new listings, London's Main Market IPOs posted overall average growth of 9.9% during 2021 – outperforming the FTSE 350 benchmark by 2.2%, which achieved 7.7% growth over the equivalent periods.

There was a broad range in terms of individual performance, ranging from over 125% to -60%, with twelve companies overperforming against the FTSE 350 benchmark, while eleven underperformed.

The top performing industries were **Technology, Media, and Telecommunications** (19.0%) and **Energy & Resources** (15.9%). With high individual performance from the likes of Auction Technology Group, Darktrace, and Oxford Nanopore Technologies.

At the other end, both of the **Industrials** businesses which listed during the year underperformed by a combined average of -22.0%.

The Deloitte IPO barometer measures the respective share price movement of companies – excluding investment companies – listing on the Main Market of the London Stock Exchange's versus the FTSE 350 index between the date of their IPO and the first trading date of the following year – for this report, 4th January 2022. This reflects share price movements only and are not a measure of total returns.

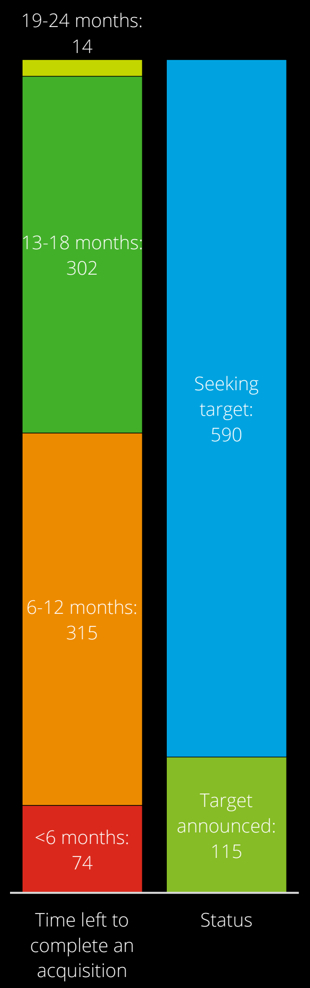


Source: London Stock Exchange and Refinitiv Eikon

The global market for SPACs | ECM hot topics

Special Purpose Acquisition Companies ("SPAC") continue to account for a significant portion of U.S. IPOs, with 248 SPAC IPOs in 2020, 613 in 2021, and 32 in the first few weeks of 2022. SPACs in the UK and Europe are increasing in popularity, but are still significantly behind the U.S. in volume terms.

Active SPACs by status



Source: SPAC Research (as of 28 Jan 2022)

U.S. market

The volume of SPAC activity is beginning to slow from the record highs seen in 2020 and 2021. Despite this, sophisticated sponsors are continuing to enter the market and SPACs remain attractive given they can sometimes provide an accelerated timeline to going public in uncertain times. This continued market volatility also means that SPAC mergers can be more attractive because of up-front pricing and valuation that is largely determined months before the transaction closes.

Despite the cooling-off being seen in the market, there are still some 705 SPACs yet to complete an acquisition ("de-SPAC"), representing a combined value of US$190bn of funding available. This funding is time-limited, as SPACs are required to return the funds to their investors if they are unable to de-SPAC within their specified timeframe.

Of these 'active' SPACs, 74 have less than six months left to de-SPAC, and a further 315 have under a year left to complete. This means that there is still a significant amount of SPAC activity to be expected in the coming year or two.

Over 20% of these SPACs are focused on the technology sector, followed by general SPACs with no disclosed specific target industry, as well as Healthcare, Consumer, and Financial Services.

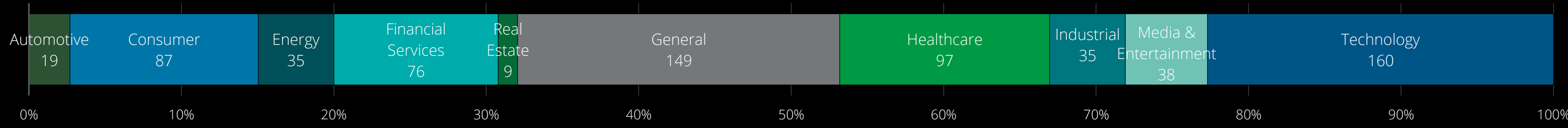
UK and European markets

The UK and European SPAC markets are in a much earlier stage than the U.S. market. There was a record number of European IPOs in 2021, however, on average, there were only ten European SPACs issued each quarter. Amsterdam is the most dominant market by value, followed by Frankfurt and Paris. Regulatory changes in the UK that came into effect in August 2021 are expected to drive growth in the UK SPAC market. Notably, new rules included the removal of the requirement to suspend trading in the shares when an acquisition was announced or leaked which was previously seen as a significant deterrent.

Although only two SPACs have so far listed in the UK subsequent to the new regulation coming into effect – the first at the end of 2021, and a second in January 2022 – it is expected that the volume of activity will increase, and SPACs will be permanent feature of both UK and European markets going forward. The majority of companies considering a listing in the UK are now evaluating both the traditional IPO route as well as listing via a SPAC transaction.

It is important to note that de-SPAC requirements differ by jurisdiction and experts should be engaged early in the process to understand the specific requirements.

Active SPACs by sector



Source: SPAC Research (as of 28 Jan 2022)

There are a number of common challenges faced by companies when undertaking a de-SPAC transaction. Getting ahead of such challenges is critical to the success of the transaction.

Deloitte SPAC services

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

Typical support provided includes:

- Transaction Management Office
- Business plan drafting and financial model preparation
- Tax and structuring advice
- Due diligence for targets, including support through DD by the SPAC
- Drafting financial elements of merger agreements
- Assistance with financials preparation and technical paper drafting
- Support through PCAOB audit
- Assistance with drafting financial sections of SEC filings
- Management remuneration advice

Key considerations for target companies

- Vendor support: the search for a suitable target by a SPAC is similar to the process used in a typical M&A transaction, with sponsors vetting potential targets through an accelerated financial, legal, and tax due diligence process. Due to the accelerated timelines associated with SPAC transactions and the strain placed on company management teams, targets may benefit from engaging external advisors to support them through the M&A process, including diligence and merger agreement support.
- Timeline for a SPAC transaction: while SPAC transactions can potentially provide an accelerated timeline compared to the traditional IPO route, it should not be considered as "the easy option". In most cases, de-SPAC transactions carry with them accounting and reporting requirements that are at least equal to, and often more onerous than, traditional IPOs. An early discussion around requirements and determining a realistic timeline alongside external advisors is critical to success when contemplating a de-SPAC transaction.
- Availability of reliable financial information: while audited financial statements may not technically be required until the merger proxy is filed with the U.S. Securities and Exchange Commission ("SEC"), there is an increasing expectation that companies will have reliable financial information available at an earlier date to facilitate discussions with prospective investors. Companies may wish to obtain support if any complexities are anticipated such as GAAP conversions or carve-out financial statements.
- PCAOB audit requirement: due to the high volume of capital markets activity in recent years, companies may face challenges seeking to engage with audit firms on short notice. Companies should engage with auditors as early as practicable and understand the timeline in which a Public Company Accounting Oversight Board ("PCAOB") audit can be realistically completed. This will need to be closely monitored and factored into the wider de-SPAC transaction timeline.
- Increasing regulator focus: there is an increasing focus from the SEC on SPACs. In June 2021, the SEC announced its regulatory agenda which included planned rulemaking relating to disclosures for SPAC transactions, including the potential for enhanced disclosure requirements. The SEC continues to focus on pro forma financial information included in SEC filings and associated accounting considerations for complex matters such as warrants.
- Structuring considerations: early consideration of the tax and legal structuring consequences is essential to ensuring that the final structure is tax efficient and achieves the right outcome (for example, achieving foreign private issuer status). Companies should consider engaging external / specialist support early in the transaction process to support with deal structuring, tax planning and tax compliance.
- Change of control or regulatory provisions: the de-SPAC may trigger "change of control" provisions in existing agreements at the target company, such as banking or customer agreements. In addition, if the target company is subject to regulation the de-SPAC may require regulatory approval. Any such requirements should be identified and considered at an early stage since they will inherently involve third parties (e.g. the FCA or PRA for financial services businesses), and possibly the re-drafting of agreements.

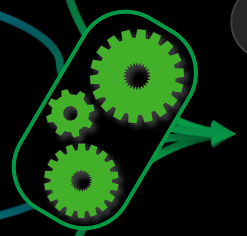
Managing complex ECM transactions | The ECM transaction management office

Successfully executing a capital markets transaction requires the management team to retain ownership and control of the process, rather than simply responding to external factors. However, an ECM transaction can also be the largest and most complex project undertaken by a company, meaning management teams will typically have minimal experience from comparable transactions. In this section we explore some of the key challenges and what 'good' looks like in the context of ECM transaction management.

Complexity of ECM transactions

Drivers of complexity

1. Complex and interdependent workstreams with inflexible milestones to hit market windows
2. Process requires an extensive understanding of specific capital markets transaction requirements
3. Time and resource constraints of managing transaction whilst maintaining BAU
4. Alignment of an extensive range of internal and external stakeholders and interests



Three key competencies for the core team leading an ECM transaction programme:

1. Remaining in control of the process and timelines
2. Driving complex and interdependent workstreams, bringing clarity on progress and priorities to management and key stakeholders
3. Achieving early preparation where possible, to allow the Company flexibility to respond to market conditions as appropriate

Common ECM transaction pitfalls

- Not having an appropriately **skilled, resourced, and allocated team**, resulting in the process being 'done to' the business
- **Distraction of management** from running the underlying business while focusing on the transaction
- **Underestimating the timeline and resources** required across the many transaction workstreams
- **Lack of visibility and coordination** between key stakeholders and interdependent workstreams resulting in greater cost and inefficiency
- Last minute reporting and information requirements causing **'surprises' in the results**, or challenging disclosures following the transaction
- Failure to **identify and deliver improvement initiatives** early enough to execute on a strong investor story

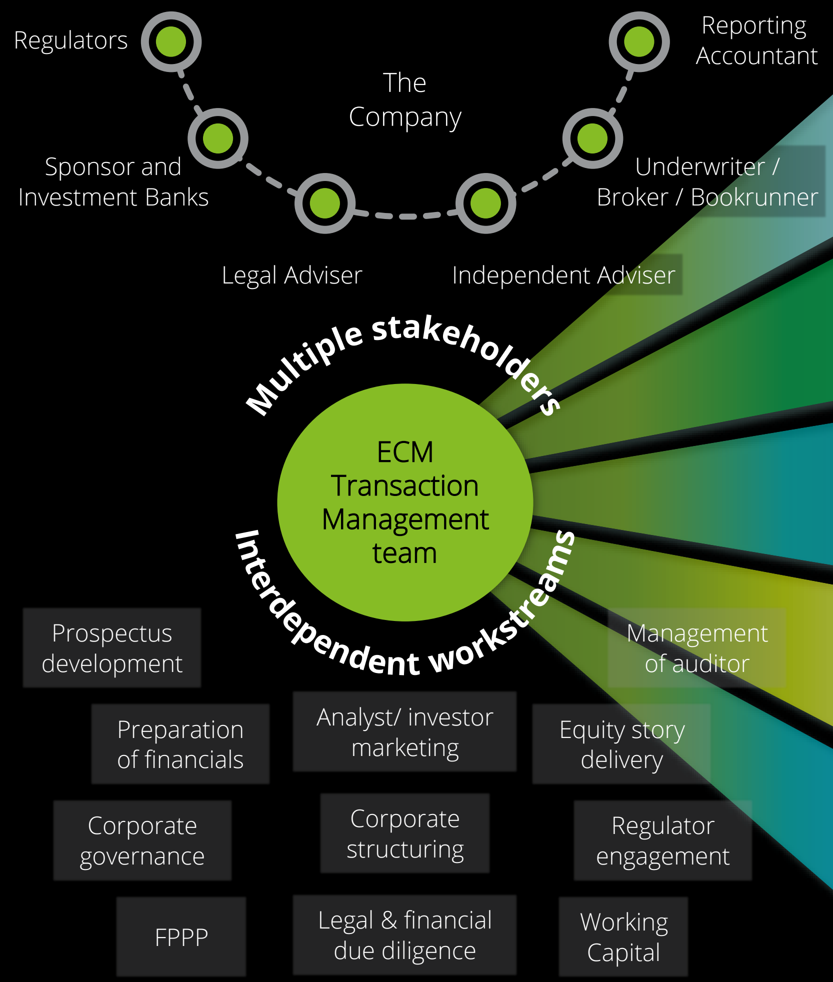
Managing complex ECM transactions | The ECM transaction management office

Establishing an effective ECM transaction management office that sits at the heart of the programme will help you to efficiently navigate the challenges and mitigate the risks inherent in ECM transactions. Deloitte's market-leading ECM Transaction Management Office ("TMO") team can support you throughout the deal lifecycle, with experienced professionals ready to be deployed at pace across a breadth of capabilities.

Deloitte ECM TMO

- ✓ Experience across multiple markets, industries, and deal sizes
- ✓ Breadth of capability – able to access the breadth and depth of Deloitte expertise
- ✓ Track record of managing some of the most complex UK/European transactions recently
- ✓ ECM knowledge –extensive experience and knowledge of ECM processes
- ✓ Scalability – can be deployed and scaled as required across discreet workstreams or an entire programme
- ✓ Methodology – an established and proven methodology with specific TMO tools and technology

TMO sits at the heart of a successful programme



Shapes the programme

Shapes the governance of the programme over time to meet the demands of each stage of the transaction, ensuring **the right people can make informed decisions in a timely manner when required**.

Drives value

Focusses on the **value driving initiatives/ synergies** that must be delivered in addition to the structural and regulatory requirements to meet the transaction timeline.

Focuses on business performance

Understands the longer term priorities. Whilst many will be focussed on getting to the 'finish line', the **transaction office should know what needs to be delivered in the first 100 days** in order to begin life post transaction successfully and to meet commitments made to the market during the listing process.

Guides the business

Manages the preparation on the Company side and provides insights to functional teams on the process to **establish control within the organisation** and ensure the Company is engaging advisors in the most efficient and effective way possible.

Owns the roadmap

Is able to develop and **own the end to end consolidated roadmap** in order to set priorities and identify upcoming issues requiring management attention well in advance.

An effective ESG ("Environmental, Social, and Governance") strategy has rapidly gone from being a "nice-to-have" to a necessity, and an important strategic consideration for investors and regulators alike. This is leading to increasing demand for clear and authentic communication from companies, including policies, KPIs, and goals, along with tracking of performance against those with the most material impact on commercial success, productivity, and long term resilience.

A key priority for investors

Investors are increasingly evaluating a company's ESG strategy and sustainability of their future cashflows as part of their value positioning, with many crediting Oatly's successful Nasdaq IPO, at the top of its expected price range, to their transparent approach to ESG reporting and positioning as a sustainable alternative to dairy products.

Investors are allocating significant volumes of capital behind this, with impact AUM reaching $2trillion in 2021 and total capital aligned to net zero emissions by 2050 of over $130 trillion. ESG exchange-traded funds ("ETF") are also seeing significant inflows, with an estimated over a quarter of ESG fund investments in 2021 going into ETFs.

High growth ESG sectors

Investors are increasingly attracted to ESG sectors with strong growth and impact potential, such as renewable energy, sustainable food innovation, waste recycling, and electric vehicle infrastructure, as well as cyber security and healthcare.

This trend is expected to continue, with new innovations leading to a growing number of emerging ESG focused sub-sectors offering strong growth potential and opportunities to future-proof revenues and business models.

Cost of capital

ESG-focused companies are typically able to command value premiums – primarily driven by the high-growth nature of these businesses and current demand outweighing supply – with evidence emerging that companies with a strong ESG position are able to reduce their cost of capital by around a tenth.

This could mean that companies without a robust ESG strategy may find a restricted potential investor pool, leading to lower base valuation, and higher costs of capital or even difficulty raising future capital.

Financial Conduct Authority consultation

In December 2021 the FCA published a report on enhancing climate-related disclosures by Standard listed companies.

In October 2021 the UK Government published a new Greening Finance Roadmap which will result in extended sustainability disclosures for corporates and a greater role for the FCA in supporting implementation. The UK regulator is seeking to increase ESG scrutiny in this growing market, including the following regulatory considerations:

- audit and assurance standards for ESG disclosures;
- use of Second Party Opinion ("SPO") providers;
- functioning of green, social, and sustainable ("GSS") debt instruments; and
- ESG rating and data providers.

Deloitte ESG

Our dedicated ESG team are here to support you throughout the entire transaction lifecycle. From defining a clear ESG strategy, setting the ESG equity story, assessing ESG readiness, and diligencing ESG, to working with management teams to implement an ESG strategy, governance and processes.

Harnessing our global ESG expertise Deloitte also supports clients across climate change risk modelling, net-zero, decarbonisation and sustainable finance.

Our services | Deloitte Equity Capital Markets

Our dedicated team of over 120 ECM professionals provide specialist expertise across the lifecycle of an IPO, SPAC transaction, class transaction, or equity fundraising. We have had a role in a majority of the largest Main Market transactions in recent years, 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.

SPACs

- Dedicated and experienced SPAC services team.
- Extensive experience of U.S. and SEC requirements.
- Support provided throughout the life-cycle 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;
  - preparation of financial information or track records;
  - governance and internal control enhancements;
  - complex modelling;
  - 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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