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Cautious optimism

UK ECM update | Summer 2023

Cautious optimism

14th Deloitte UK ECM update | Summer 2023

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Welcome to the 14th Deloitte UK ECM update

The ongoing geopolitical and macroeconomic uncertainty has seen global IPO activity largely remaining on hold in 2023 year-to-date, with investors focusing on their current assets rather than new opportunities. There is cautious optimism that the IPO market will begin to re-open in Autumn 2023, and accelerate into Spring 2024, with green shoots of recovery showing.

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

Geopolitical and macroeconomic uncertainty has made 2023 a challenging year thus far for global equity capital markets transactions. The record low in IPO activity is seen both in the UK and globally, and comes despite the VIX remaining below 20 for most of the period, suggesting that while markets have now priced in the uncertainty investors are still prioritising strengthening existing holdings rather than pursuing new opportunities.

The banking sector challenges during March and April led to a number of businesses holding back on starting their IPO processes, **dampening hopes for a rebound in IPO activity during 2023**. While many of these businesses are still considering a listing, most are unlikely to be ready in time for this year's Autumn IPO window.

That said, there are some **green shoots of recovery showing in IPO markets** with the potential for activity to start returning this year, accelerating into Spring 2024, as businesses and investors adjust to the macroeconomic environment. However **potential headwinds could include** the risk of further economic destabilisation, an escalation of the geopolitical events in Ukraine, or disruption relating to next year's elections in both the UK and US.

The IPO of CAB Payments onto the Premium Segment of the London Stock Exchange in July was the first UK IPO of an operating business of scale this year. We are delighted to include **an interview with CAB Payment's CFO, Richard Hallett**, to reflect on the IPO process and succeeding in the current market environment.

The economic landscape has been dominated by the **heightened inflation and steady succession of interest rate rises** over the past 18 months. While today's rates would have been considered normal before the Global Financial Crisis, they now suggest the need for companies to reassess their capital structures which have become reliant on the cheap availability of debt financing. This is affecting both business confidence and consumers, with our *Financial and Economic Stress Indices* indicating elevated stress in both the financial and broader economic realms.

We explore the **role for London's capital markets in funding the pathway to net zero**, and energy transition in particular, highlighting an £800bn gap to achieve the government's plans.

The **national debate surrounding London's competitiveness** as a listing venue internationally, and particularly in competition against the US, has continued this year. This has included a wide range of initiatives and proposals from the Capital Markets Industry Taskforce and various proposed reforms from the Financial Conduct Authority.

A recurring theme for both listed companies and those starting on the IPO process, we once again discuss the various considerations for companies in **selecting the right equity capital market** on which to be listed.

Our technical specialists have also provided an overview of some of the **proposed reforms from the FCA**, and what they could mean for UK-listed companies or those contemplating a UK IPO.

We also discuss **the vital role of a *Structure Paper*** in effectively managing the risks to delivering a successful equity capital markets transaction in the context of the numerous internal stakeholders and external advisors.

And we, finally, **draw the curtain on the SPAC boom**, which has attracted such a significant share of attention over the last few years.

Lastly, a reminder to founders, CEOs, and CFOs of businesses who are at the initial stages of considering an IPO that **our *IPO Scanner* is a free and easy-to-use tool** enabling you to assess the readiness of your company for both the IPO process and life as a listed company.

We hope you enjoy reading this fourteenth edition of our UK ECM update.

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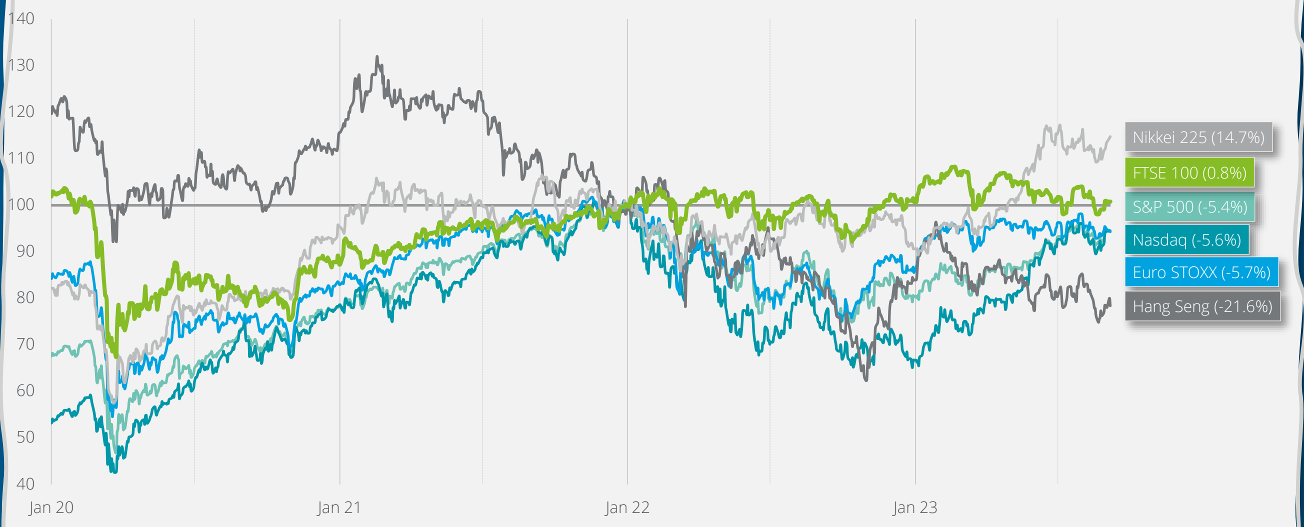
Uncertainty persists in global markets | UK ECM market update

Now down by about 7% from it's all-time high in February, the FTSE 100 has remained broadly flat as compared with the start of both this year and 2022. At the sector level, there seems to have been a general reversion to the mean, with some of the strongest performing sectors being those which underperformed in previous years, while many of the sectors which had seen strong growth since 2020 were either flat or down in 2023.

Performance of selected global indices since 2022 (daily close)

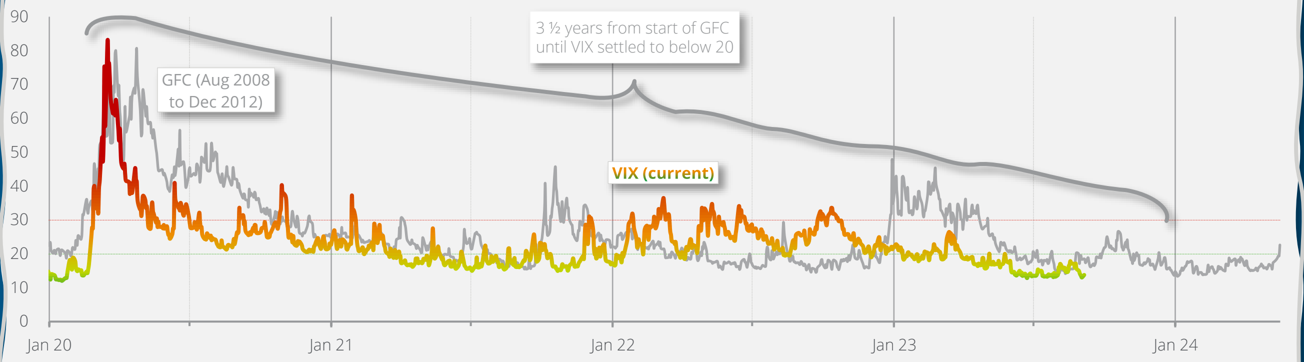
1 Jan 2022 (open) = 100



Source: LSEG Data & Analytics (updated 5 Sep 2023)

Cboe Volatility Index ("VIX") – daily close

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



Source: Refinitiv (updated 5 September 2023)

At the global level, most markets have seen solid growth in the year to date, recovering most of the losses seen during 2022. Big Tech continues to be the key driver in the US markets, with just seven Nasdaq-listed companies, five with market caps in excess of $1tn – *Apple* (AAPL), *Microsoft* (MSFT), *Alphabet* (GOOGL), *Amazon* (AMZN), *Nvidia* (NVDA), *Tesla* (TSLA), and *Meta* (META) – accounting for nearly a third of the S&P 500 index.

Despite the ongoing macroeconomic challenges, the VIX has settled down throughout 2023 suggesting the bad news has now been effectively priced in to the market. Interestingly, the time elapsed since the spike of volatility at the start of the COVID-19 Pandemic is similar to that following the last such spike in the Global Financial Crisis of the late 2000s.

Construction & Materials has been the best performing FTSE sector, growing by nearly a third. Other sectors which experienced growth in 2023 had underperformed in previous years – such as *Automobiles*, *Travel & Leisure*, and *Retail*, all of which still lag below pre-Pandemic levels. At the other end, *Basic Resources* fell by about a fifth, although still well ahead of 2020.

Price performance (selected sectors)	2023	2022	2021	2020	Jan 2020 – Jul 2023
FTSE 350	-0.2%	-2.4%	13.4%	-13.6%	-4.6%
Construction & Materials	30.0%	-18.4%	19.8%	-2.3%	24.1%
Retail	22.4%	-33.2%	13.4%	1.7%	-5.7%
Automobiles & Parts	20.1%	-57.8%	-18.0%	-18.7%	-66.2%
Technology	18.0%	-19.9%	13.8%	-12.7%	-6.2%
Travel & Leisure	17.6%	-18.7%	-6.7%	-21.6%	-30.0%
Industrial Goods & Services	11.7%	-16.0%	22.6%	-0.7%	14.3%
Banks	5.8%	8.3%	17.8%	-32.6%	-9.0%
Energy	5.3%	39.6%	25.0%	-43.4%	4.0%
Food, Beverage & Tobacco	-13.9%	2.2%	16.9%	-10.9%	-8.5%
Chemicals	-15.9%	-28.1%	20.9%	0.1%	-26.9%
Basic Resources	-19.9%	19.4%	11.9%	13.7%	21.7%

Macroeconomic and financial context | Selected global indicators

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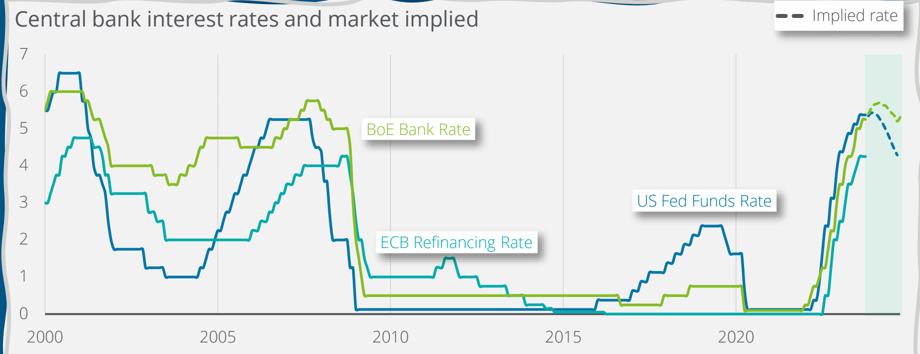
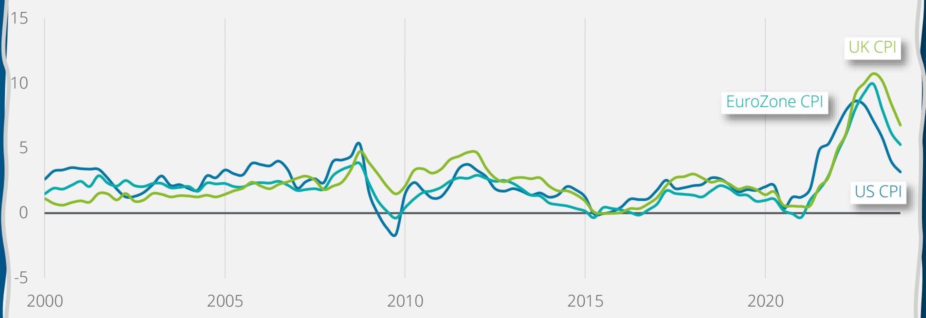
Central bank interest rates and market implied



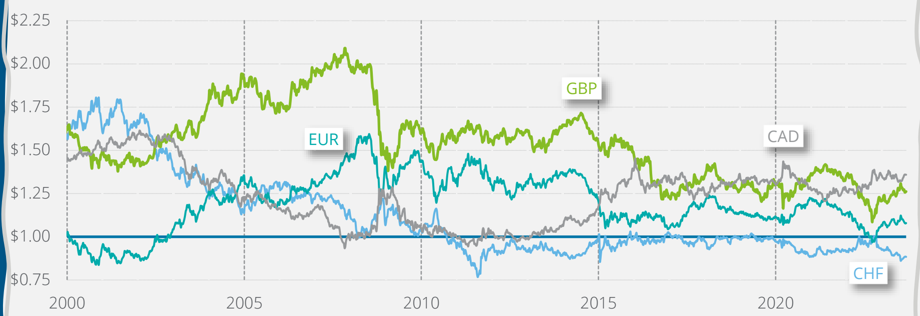
Source: LSEG Data & Analytics (updated 5 Sep 2023)

Inflation (y/y) – selected markets



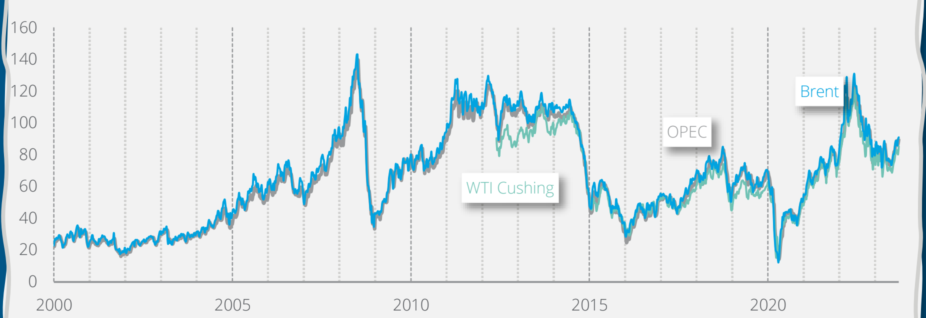
Source: LSEG Data & Analytics (updated 5 Sep 2023)

FX spot rate – selected currencies (vs. USD) (weekly)



Source: LSEG Data & Analytics (updated 5 Sep 2023)

Crude oil (US$ per barrel) (weekly)

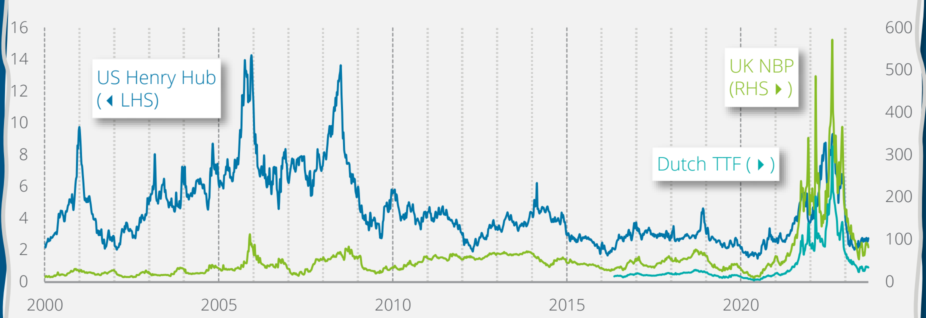


Source: LSEG Data & Analytics (updated 5 Sep 2023)

10-year bond benchmark – selected markets (weekly)

Source: LSEG Data & Analytics (updated 5 Sep 2023)

Natural gas – selected markets (weekly)



Source: LSEG Data & Analytics (updated 5 Sep 2023)

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Interest rate worries | Deloitte UK CFO survey Q2 2023

The effects of higher than anticipated inflation and the sharp rises in interest rates are weighing on business confidence, edging confidence among the CFOs of the UK's largest corporates lower during the second quarter, reversing much of the uptick seen in the previous quarter. This has also resulted in CFOs rating equity as a more attractive source of funding than borrowing for the first time in over a decade.

The quarterly Deloitte CFO Survey has been gauging sentiment and balance-sheet strategies among the UK's largest businesses since 2007.

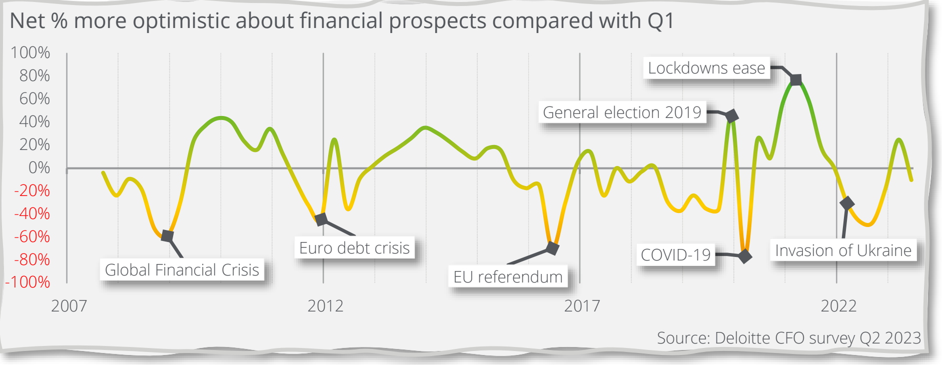
The prospect of increasingly tight monetary policy is now seen by CFOs as the greatest challenge facing their businesses, with the top three risks being:

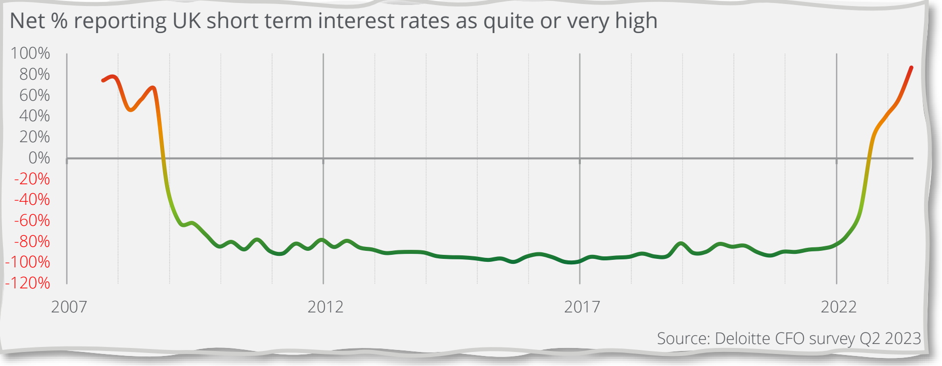
1. The prospect of further rate rises and a general tightening of monetary conditions in the UK and US.
2. Rising geopolitical risks worldwide, including the war in Ukraine.
3. The risk of higher inflation and/or a bubble in housing and other real and financial assets.

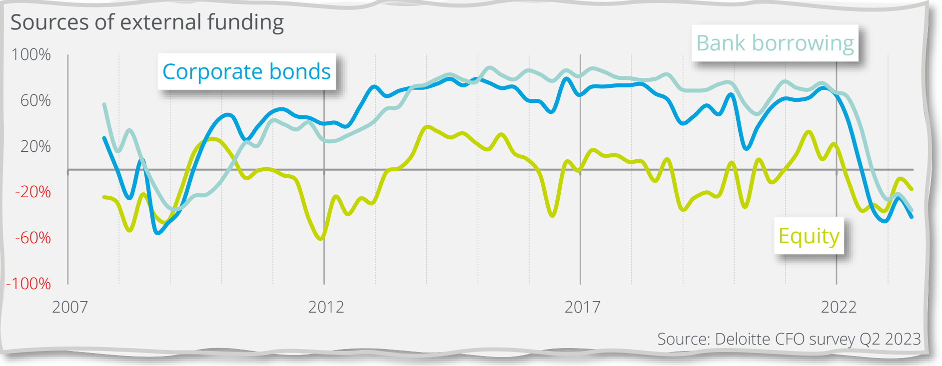
This has already been borne out in financial market expectations for central bank base rates which have been steadily rising over recent months. Indeed, since the publication of our survey there have been rate rises from both the *US Federal Reserve*, to a range of 5.25% to 5.5% – the highest in 22 years – and *European Central Bank* to its highest ever at 4.5%.

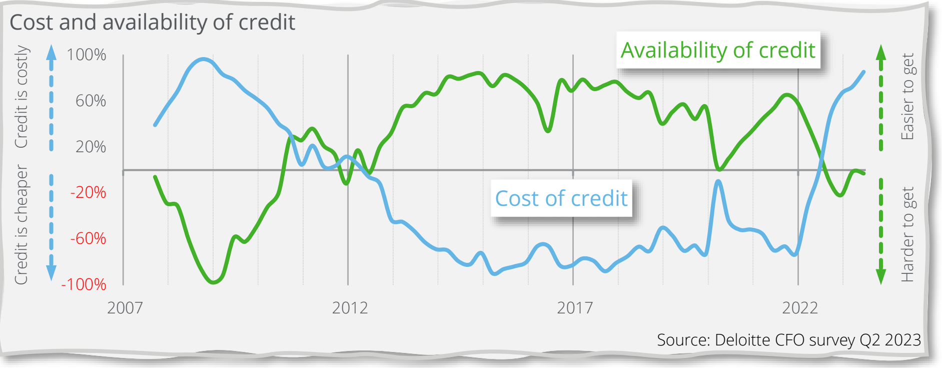
Reflecting this reality, credit is now seen as being more costly than at any time since the credit crunch in 2009, while the overall availability of new credit is considered harder to get.

The increased cost of borrowing has resulted in CFOs considering equity a more attractive source of funding – as compared with either corporate bonds or bank borrowing – for the first time since 2009.









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A monthly index of stress in UK financial markets | The Deloitte UK Financial Stress Index ("FSI") – July 2023

The UK FSI has settled at around 0.3 in June and July – higher than normal, but down significantly from the peak at the end of last year following the UK 'mini budget', and the elevated levels as a result of the US and European banking sector challenges during the first quarter of 2023. Uncertainty over inflation and interest rate expectations have been key factors in recent fluctuations in the index.

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

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

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

Equities

the ratio of total return on UK government bonds to UK equities, and volatility of the FTSE 100 index

Corporate debt

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

Sovereign debt

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

Short-term funding

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

Real estate

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

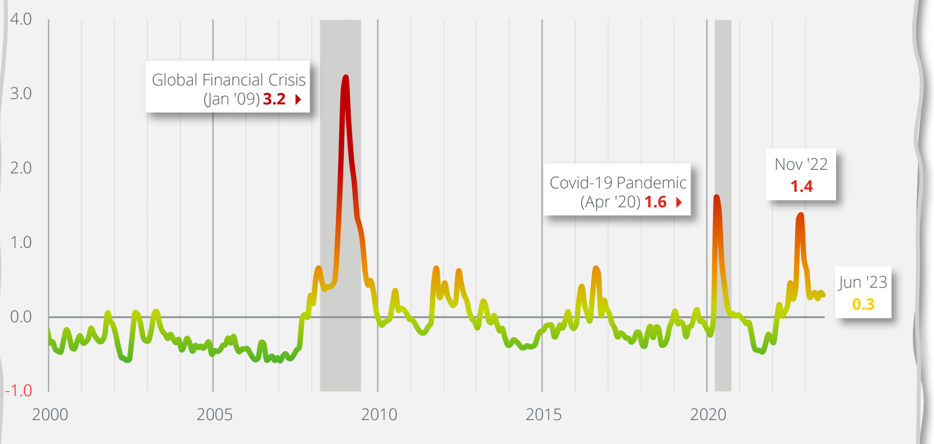
Foreign exchange

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

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

UK Financial Stress Index ("FSI") – monthly

Measuring the aggregate level of stress in UK financial markets

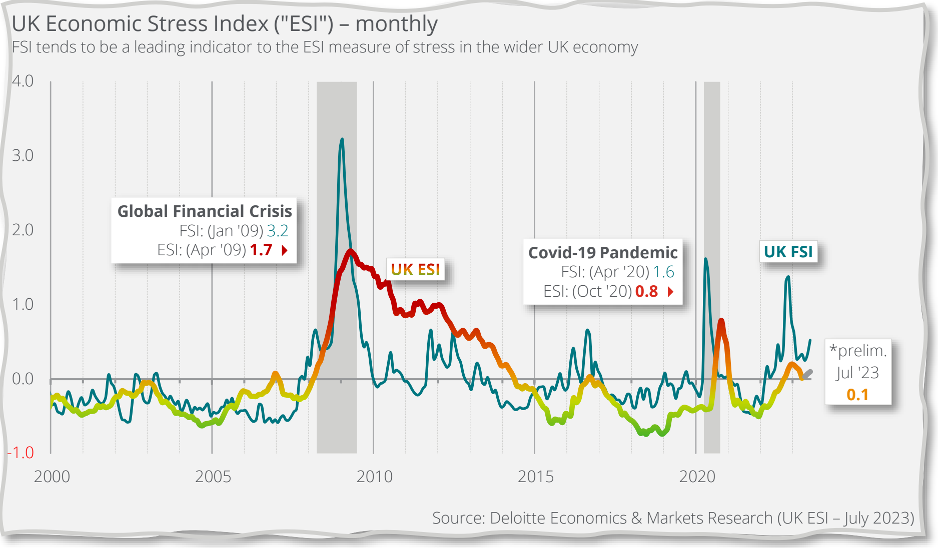


Source: Deloitte Economics & Markets Research (UK FSI – July 2023)

	Jul '22	Aug '22	Sep '22	Oct '22	Nov '22	Dec '22	Jan '23	Feb '23	Mar '23	Apr '23	May '23	Jun '23
Short-term funding	▲	▼	▲	▲	▲	▼	▼	▼	■	■	▼	■
Sovereign debt	▲	■	▲	▲	▼	▼	▼	▼	■	■	▲	▲
Corporate debt	▲	■	■	■	▼	▼	■	■	■	▲	▼	■
Equities	▲	■	▼	■	▲	■	■	▼	■	■	■	■
Foreign exchange	▲	▼	▲	▲	▼	▼	■	▼	■	▼	▲	■
Real Estate	▲	▼	▼	▲	▲	▼	▼	■	■	■	▼	▼
Deloitte UK FSI	▲	▼	▲	▲	▲	▼	▼	▼	▲	▲	▼	▲

A monthly index of stress in the wider UK economy | The Deloitte UK Economic Stress Index ("ESI") – July 2023

A new index capturing the pressures across the UK economy into a single monthly measure, the ESI aggregates eight key variables to assess strain for both households and businesses into one headline figure. This index tends to follow the FSI directionally, with effects typically taking a few months to materialise in the broader economy.

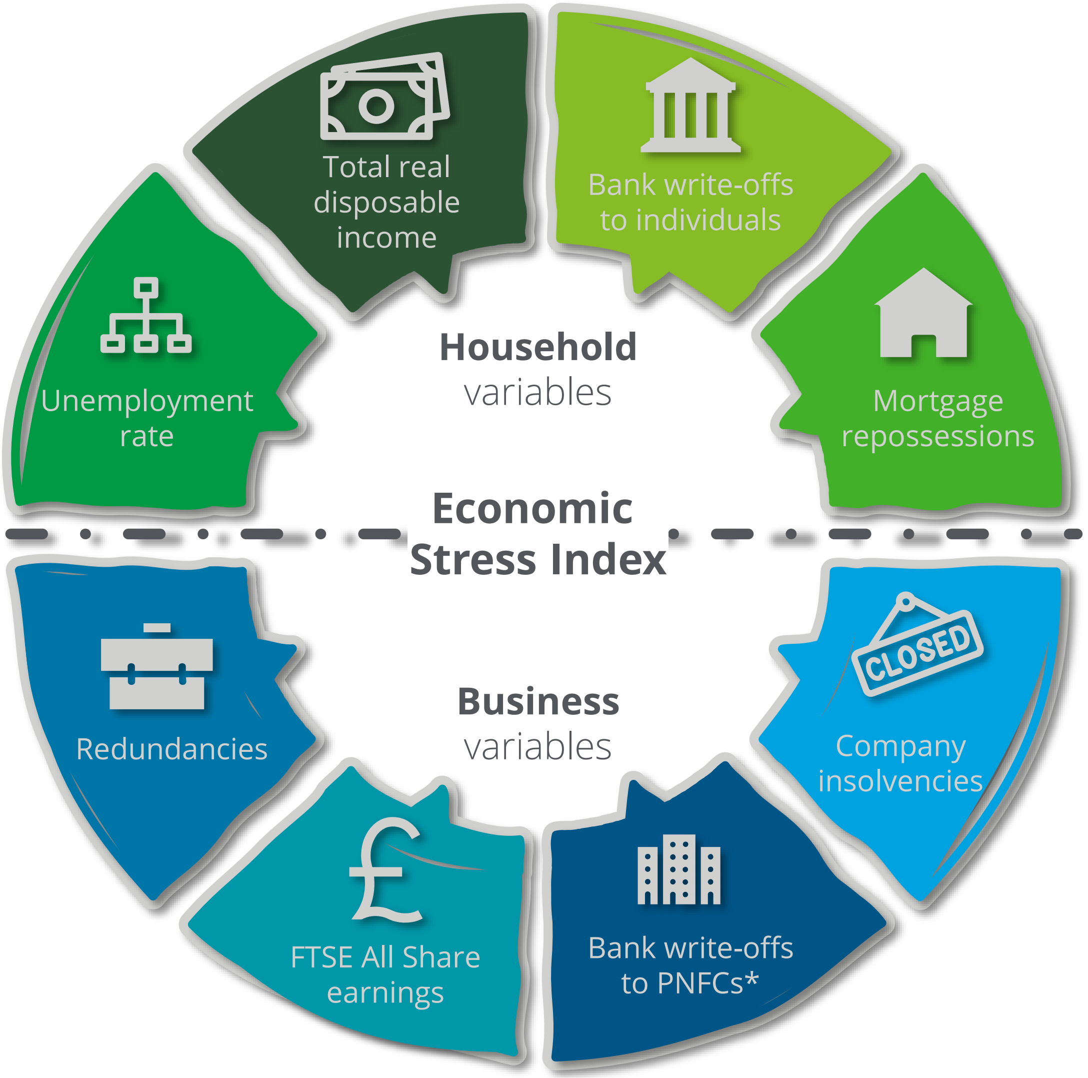


The higher the ESI, the greater the stress. A positive reading signals that the UK economy is experiencing higher than average levels of stress, while a negative reading signals the opposite.

To produce the index, each variable is first de-trended to eliminate any base effects from estimates. We then measure how divergent the current reading of each variable is from the norm to produce the individual indices. These are then averaged to construct the ESI.

Some of the composite variables of economic stress are published infrequently. In these cases, we use an Index of Google searches for the terms (or strongly associated terms) as a proxy until publication of the final data. This enables us to construct a more timely preliminary reading of the economic stress being felt. The ESI value is updated to produce the final reading as official data is made available.

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



* PNFC = Private non-financial corporation

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FCA Consultation Paper 23/10 | Part of the FCA's consultation regarding changes to the UK Listing Regime

In May this year the Financial Conduct Authority ("FCA") published a consultation paper setting out proposed reforms to the UK Listing Regime as part of the UK's Primary Markets Effectiveness Review and the UK Government's wider project of making UK public markets more attractive. The stated intention is to make the UK Listing Regime "more accessible, effective, easier to understand and competitive" and to "benefit both issuers and investors".

The consultation feedback period has now closed.

A follow-up consultation paper is planned for Autumn 2023, which may include a draft of the proposed revised UK Listing Rules.

The timing and implementation of any such updates, or any transitional provisions, is currently unknown.

The current UK Listing Rules – including eligibility requirements – remain in force.

This is only one part of the FCA's consultation process, with a series of six engagement papers currently seeking feedback.

A summary of the key proposed reforms:

- Creation of a **single listing category for equity shares in commercial companies** (the "ESCC"):
  - removing the current two segment approach of Standard vs. Premium.
- A **single set of eligibility requirements for the new ESCC**, effectively removing the current requirements for companies seeking a Premium listing, including the removal of:
  - **three-year revenue earning track record** requirement;
  - requirement for **at least 75% of the issuer's business** to be represented in the historical financial information in the prospectus;
  - the need for a **'clean' working capital statement** in the prospectus.
- Relaxation of certain **initial and continuing obligations** that currently apply to Premium listed companies:
  - **Controlling shareholders**: a shift to a "comply or explain" and disclosure-based approach to controlling shareholder agreements.
  - **Independent business and control of business**: a modified form of the current requirements with a focus on ensuring that a company can keep the market apprised of its operations, current trading position and performance, including by being able to obtain, identify and disclose inside information.
  - **Dual class share structures**: a generally more permissive approach to be taken, including an increase in the current sunset period from five to ten years maximum.
- Removal of the **requirements to publish a Class 1 circular and obtain shareholder approval for significant transactions of 25% or more** in size:
  - for transactions at or above the 25% threshold, only a **class 2 style announcement** would be required – the exact disclosure requirements for this are yet to be confirmed;
  - **no announcement required** for transactions below the 25% threshold;
  - retention of the FCA-approved circular and shareholder vote requirement for **Reverse Takeovers and significant transactions involving financial "distress"**.
- Removal of the requirement to **publish a circular and get independent shareholder approval for related party transactions** ("RPTs"):
  - for RPTs at or above the 5% threshold, **only an announcement** would be required;
  - a **"fair and reasonable" opinion from the company's board** would be required, including agreement from a Sponsor.
- **Cancellation of listing** requirement to apply to the new ESCC:
  - companies would require the **approval of a 75% majority of shareholders for a cancellation of their listing**, with specific criteria applying where there is a controlling shareholder.
- **Retention of the Sponsor regime**, albeit with reduced involvement beyond the initial listing process:
  - **all new applicants to the ESCC** would be required to consult with a Sponsor;
  - due to the removal of class 1 circulars and RPT circulars, further consultation with a Sponsor would only be required in **limited circumstances such as Reverse Takeovers**.

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CAB PAYMENTS

An interview with… Richard Hallett, Chief Financial Officer, CAB Payments

As well as improving our liquidity and broadening our ownership, operating as a public company will help further enhance our already strong transparency and governance frameworks that we, our clients, and regulators value so highly.

Richard Hallett is CFO and member of the Board of Directors at CAB Payments (LSE:CABP), a market leader in business-to-business cross-border payments and foreign exchange, specialising in hard-to-reach markets.

Richard's career spans more than 30 years in top tier financial services organisations. He has an extensive track record across the investment banking, corporate and retail banking sectors, both regionally and globally. Richard was formerly CFO of Barclays Africa and CFO of Absa Capital. Previous roles also include senior positions at RBS, Morgan Stanley, Credit Suisse First Boston, and Price Waterhouse.

cabpayments.com

What were the key strategic objectives for your decision to IPO CAB Payments?

Bringing CAB Payments to the public market really underscores our confidence in the business and its value generation potential. As well as improving our liquidity and broadening our ownership, operating as a public company will help further enhance our already strong transparency and governance frameworks that we, our clients, and regulators value so highly. It is a real platform for future growth. Expanding access to financial markets is at the centre of what we do and is therefore very important to us as a business. Through the IPO, we committed to ensuring individuals could participate in our exciting growth story as well, via our intermediated offer.

Why did you choose to IPO in London, and did you consider any other markets?

We see the UK as our home as a business – it is where we are incorporated, where most of our staff are based, and our track record has been built from the UK. The UK is a natural home for ambitious fintechs, such as CAB Payments, thanks to the ecosystem of talent and financial infrastructure, supported by a strong track record of fintech investments.

There has been considerable focus, reform and press around London's competitiveness as a listing venue. Did this sway your decision of listing venue?

We are very much focused on the long-term opportunity, and from the position of being a listed business, we welcome the opportunity to continue working with policymakers to ensure London remains an attractive destination for high-growth, innovative businesses to raise capital.

Our decision to list in London signifies the confidence that we have in the UK.

The 18 months preceding the IPO saw a very difficult IPO market globally, and indeed CAB Payments was the first major operating company London IPO of 2023. Why did you choose to IPO when you did?

It was the right time to help support the next phase of our growth ambitions, following several years of successful expansion and growth.

People often talk about a 'window' being open to IPO – we believe that for the right business with the right financial profile, a track record of growth and profitability, a compliance-centric business model and huge growth opportunity ahead, there is always going to be appetite to understand the investment opportunity.

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An interview with… Richard Hallett, Chief Financial Officer, CAB Payments

Early preparation is key. It is important to ensure that your financial reporting and internal processes are aligned with requirements of a publicly-traded company well before the IPO process kicks off.

Richard Hallett
Chief Financial Officer
CAB Payments
cabpayments.com

What advice do you have for management teams and shareholders considering an IPO?

- Stay transparent. Transparency is key in building trust with your future investor base. We did an extensive roadshow during the process to clearly demonstrate our strong track record of profitable and cash generative growth, a compliance-first culture and robust governance frameworks, as well as a business model that delivers real economic development benefits to emerging markets. Providing a forum for a proper discussion was important, and this transparency has led to a better understanding of CAB Payments – as well as stronger interest from the investor community.

- Stay focused. An IPO is a huge drain on management's time and attention. It is important to ensure the business continues to deliver for clients throughout the process, and that your teams are motivated for success regardless of the twists and turns in the road.

- Stay in listening mode. The complex process of an IPO requires a well-coordinated effort as it truly takes a village of dedicated individuals to achieve success. Whilst we know our business the best, it takes sound, frank advice to navigate the process.

- Stay agile. The process was intense – no two days are the same during the IPO process. It is important to remain agile and flexible in tackling unpredictable challenges.

- Staff up and focus on bringing experienced advisors. The transition from private to public markets places significant additional reporting and governance requirements on a company, even regulated institutions such as CAB Payments. For some departments, such as Finance, it is imperative you plan for this with incremental talent. The listing may appear to be the main goal, but it is just the first step in the journey of a publicly listed entity.

And lastly, what advice would you give other CFOs about to embark on an IPO?

While IPO is a significant and exciting milestone for any company, it often places a company under a microscope and subjects itself to intense scrutiny from multiple stakeholders.

I believe early preparation is key. It is important to ensure that your financial reporting and internal processes are aligned with requirements of a publicly-traded company well before the IPO process kicks off. Additionally, you need to be prepared for the roadshow to articulate your company's strengths, growth potential, and value proposition – be clear on your equity story, why it's an exciting opportunity for investors, and your differentiators.

The £800bn funding gap | London's equity capital markets and the UK's pathway to net zero

The additional capital investment required to deliver the UK Government's net zero energy transition policy has been estimated at £50-60bn per year, the majority of which is expected to come from the private sector. Total government investment commitments are so far about £30bn – focusing on carbon capture and storage (CCS) schemes. Assuming a similar trajectory over the coming years, this could leave over £800bn to be sourced from private investors, with equity capital markets likely to be an important source of investment.

In June 2019, the UK government became the first major economy to legislate a net zero emissions target by 2050. This has been followed by additional interim targets, including five-yearly carbon budgets, and a plan to reduce emissions by 78% by 2035.

The Climate Change Committee's Sixth Carbon Budget estimated additional CAPEX requirements of around £50bn-£60bn per year, the majority of which to come from private sector. The government's policy pathway was outlined in the Department for Business, Energy and Industrial Strategy ("BEIS") Net zero strategy in October 2021, with government investments seeking to "leverage up to £90bn of private investment by 2030". The UK Government has so far committed about £30bn as of fiscal year 2024, focused largely on CCS schemes.

The role for equity capital markets

While the optimal capital structure will be different for each company, financing decisions are influenced by both company-specific factors and the broader macroeconomic context. In particular, in times of higher interest rates – as we are seeing now – equity can become the more attractive option. As such, we can expect a significant proportion of the required funding to be sought as equity investments over the coming years, through both private and public equity markets.

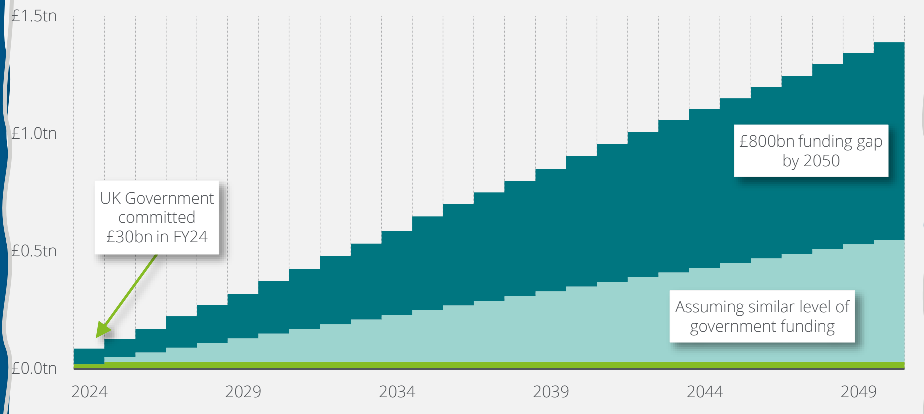
Why London?

London is a leading global market for investment in the sector, with 370 UK and global companies in energy, resources, and utilities listed on London markets with a combined market capitalisation of nearly £800bn, supported by a thriving ecosystem of investors and advisors specialising in the sector.

London has also been at the leading edge of sustainable finance innovation, including the Green Economy Mark introduced in 2019, and the government's Green Financing Programme, introduced in 2021 to help drive progress to net zero and create jobs across the UK.

The £800bn funding gap

Annual additional CAPEX required in the Balanced Net Zero Pathway



Source: Deloitte analysis / Climate Change Committee, The Sixth Carbon Budget (9 Dec 2020)

What does this mean for energy transition companies seeking funding?

Raising investment through an IPO is a complex process, so companies should start planning early in order to ensure required resources are in place, and that the business will be ready for life as a listed company.

Three key areas of focus:

- Focus on the sustainability angle of your equity story, and in particular the quality of data supporting your ESG credentials.
- Engage early with cornerstone investors to appropriately gauge market appetite and pricing expectations.
- Start planning and preparation early – for example through our IPO Scanner – to ensure your business is ready for the process, and life as a listed company.

No one-size-fits-all answer when choosing listing location | US vs UK capital markets

There is a persistent perception that companies can achieve a valuation premium through a US listing, as compared with London or other European capital markets. The right answer of where to list will depend on the company's circumstances and the business ambitions of management and shareholders for the short, medium, and long-term, as well as consideration to the prevailing market conditions. The best fit for one company may not be right for another.

Underlying attributes to valuation are largely market agnostic

While companies will often understandably point to differential valuations – such as the higher P/E ratios seen overall on US markets – this is largely driven by the composition of the indices, with the US dominated by global tech stocks, as opposed to banking and energy & resources in the UK. When looked at on the basis of comparable sectors and business sizes, there is often little or no valuation differential between the global exchanges. The underlying attributes driving valuation are largely market agnostic, although the importance placed on each may differ between investors and markets.

These attributes include:

- proven business model, able to deliver profits and cash generation;
- meaningful market growth opportunity / white space to exploit;
- high quality assets;
- durability, particularly in a downturn; and
- accomplished management team.

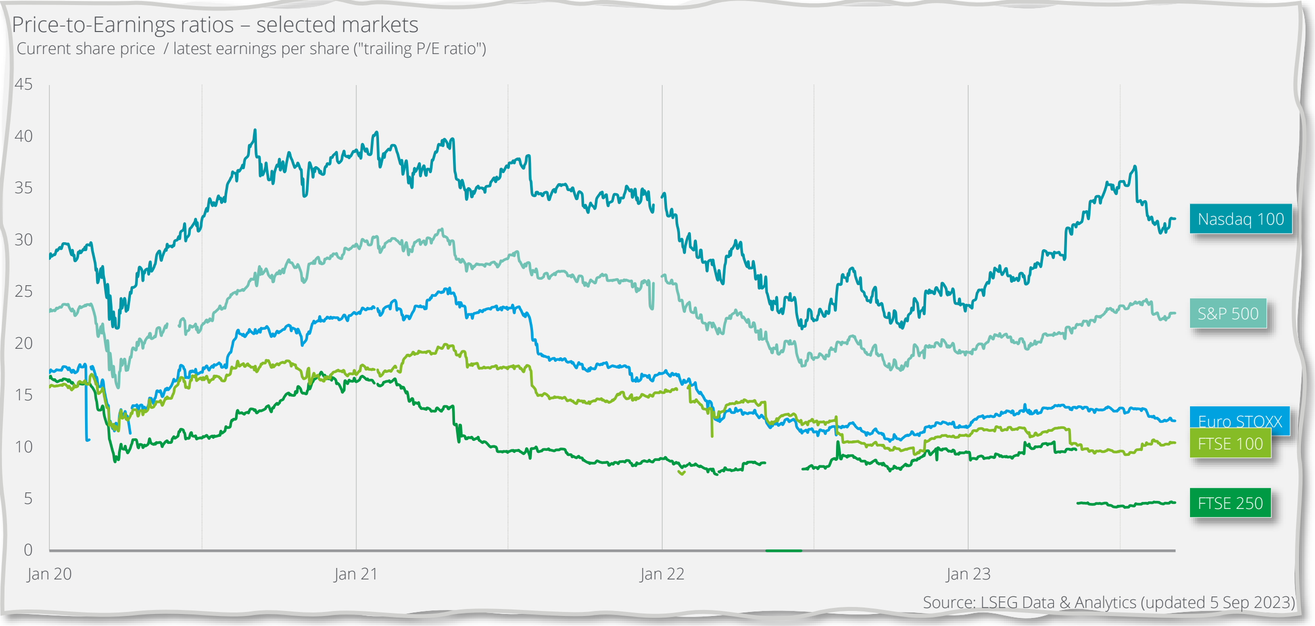
Management's ability to follow through on promises made to the market and consistently deliver against agreed targets is regularly reported as being of particular importance to investors.

Industry specialism and investor risk appetite

Different markets have historically been associated with particular industries and business models, and the risk appetite of their respective investor communities.

For example, Nasdaq has captured a dominant share of tech and biotech companies – often while still at a loss-making stage, but with high-growth potential and ambitions. Conversely, London's Main Market is generally considered a home for more established businesses, with a demonstrable record of profitability and prospective dividend stream.

However, these are not hard and fast rules, and there have been notably successful tech IPOs in the UK, while US markets have seen an uptick in listings in traditionally less common sectors such as mining.



Other considerations

- Consider where a company's **listed peer group and likely future institutional investors** are based. Different exchanges have different sector and other focus areas.
- Consider the **desired percentage of free float shares**. The UK tends to see larger free floats at IPO, compared with US listings which often have a lower float, followed by more frequent follow-on offerings.
- A company's **capital structure and financing strategy** should also be considered, with varying' tolerance to leverage from investors in respective markets
- The current and anticipated **geographic spread of operations** will also be a consideration, and it will often make sense to match the listing location and investor base with the company's geographical centre of gravity.

Overall

- Each business should **make its own factual assessment** of where to list.
- Give particular focus to the **location of listed peer group**, and the **likely incoming investor base**.
- **Be wary of myths** or press headlines.
- There is **no "one-size fits all" answer**.

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Structure Paper | An integrated approach to structuring for a successful ECM transaction

ECM transactions typically involve numerous workstreams – including legal, tax, accounting, and share schemes – and often each with their own advisers and project teams. Unless there is effective coordination across such a broad range of internal and external stakeholders this can cause unnecessary challenges which could otherwise have been avoided.

How should I manage this risk?

To help address this risk, we find the best approach is to stand back from these individual workstreams and take a holistic approach that considers each of these matters and reflects them in a single *Structure Paper*.

Structure Paper

A *Structure Paper* outlines the step-by-step requirements to achieve the transaction, thus providing a single source of the truth for use by management, investors, banks, lawyers, accountants, and other advisors.

It will also set out key considerations across legal, tax, accounting, and share schemes from the perspective of the listing group, as well as highlighting key points for further consideration by shareholders.

Some of the most common issues addressed in the *Structure Paper* are shown to the right.

Distributable reserve analysis

One example of the need to consider accounting, company law, and tax, in conjunction with each other is in relation to the analysis of distributable reserves. Ensuring that there are sufficient distributable reserves in ListCo is often integral to an ECM transaction in order to support future dividend policy (e.g. if a UK company is used as ListCo).

1 New TopCo
An IPO often includes the insertion of a new TopCo or ListCo within the group structure. Proper consideration is crucial to ensure that the structure will achieve the strategic objectives and address the accounting and tax risks and opportunities.

2 Share capital structure
Careful consideration is needed for both the desired post-IPO share capital structure (e.g. dual class share structures or use of a golden share) as well as to ensure that implementation and unwinding can be effectively achieved, and to understand any impact on distributable reserves.

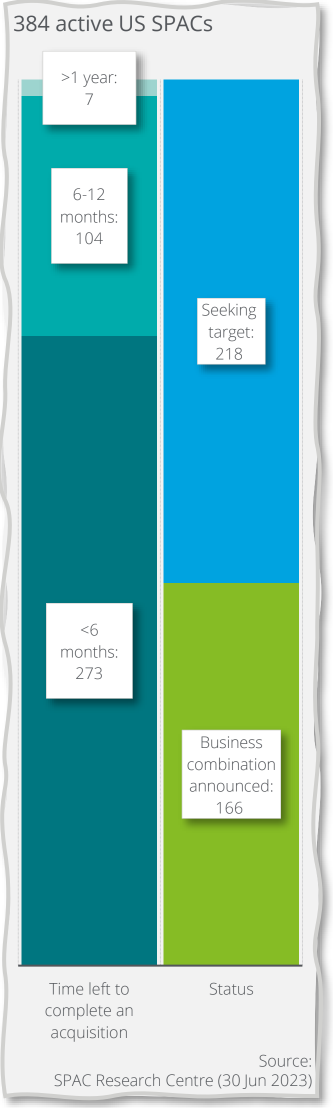
3 Flow of funds
It is important to clearly understand how funds raised in a transaction will be used, and ensure sufficient funds to settle cross-perimeter balances. This is often an opportunity to rationalise intragroup debt and optimise the group structure, including eliminating superfluous entities.

4 Management and employee incentive plans
An IPO or ECM transaction will typically involve steps which will an impact on management and employee incentive plans. It is therefore necessary to ensure that any such measures are done optimally, and with due consideration to the various tax incentive regimes.

5 VAT recovery
Recovery of VAT on transaction-related expenses can be complex and it is therefore important to establish the appropriate invoicing arrangements from the start of the transaction.

The end of an era? | The global market for SPACs

The boom in SPAC activity, which began in the second half of 2020, can fairly be considered to be over. The number of active SPACs in the market has been steadily reducing, with an increasing proportion liquidating at the end of their designated timeframe. We expect SPACs to remain a permanent feature of the IPO landscape, but more focused on specific scenarios where they can be used to the best effect.



A previously niche financial approach, Special Purpose Acquisition Companies ("SPAC") became a key feature of the global capital markets landscape following the boom of SPAC IPOs in late 2020, which continued into early 2021. The two years saw 861 SPAC IPOs in the US, with gross proceeds of over US$245bn.

This boom coincided with the broader surge in IPO activity, and led to a record number of SPACs in the market seeking targets – over 700 as of January 2022, representing a combined US$190bn of funding. However, this was followed by the significant drop in global IPO activity as global capital market activity was restrained by the significant geopolitical uncertainty and macroeconomic challenges, including rising inflation and interest rates around the world.

This uncertainty has led to many companies delaying their plans to go public, and a perceived lack of 'public company ready' businesses, which has meant that a growing proportion of SPACs are being liquidated and returning the funds to their initial investors. Since the start of 2022 nearly twice as many SPACs were liquidated as were able to close a business combination ("de-SPAC"). There has also been a significant reduction in the number of SPAC IPOs, with only 17 so far in 2023.

SPAC performance in 2023

As of the end of June, there are 384 active SPACs in the US market – with US$36bn of funding – 273 of which have less than six months remaining to complete their acquisition, and a mere seven with more than 12 months remaining.

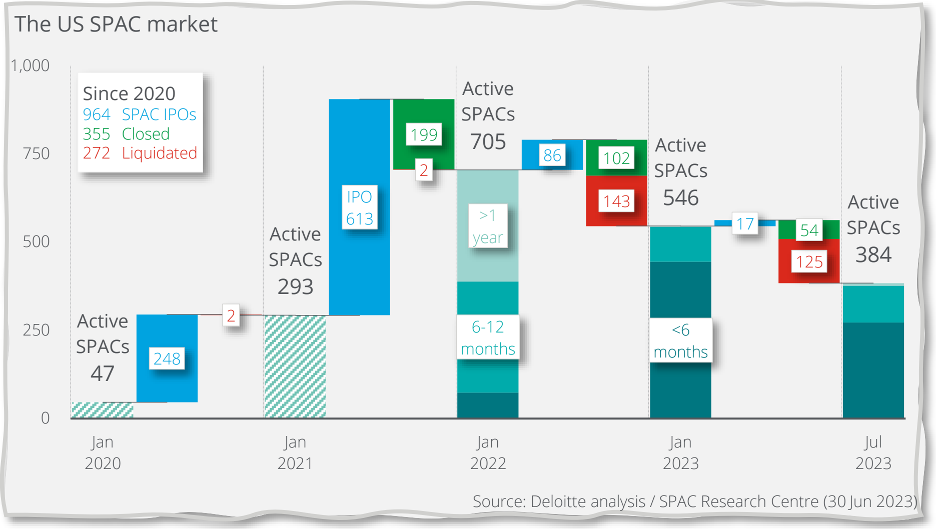
The 17 SPAC IPOs so far in 2023 represent gross proceeds of US$2bn – or an average of US$118m, less than half the average sizes seen during the peak of 2020-2021, and the lowest average size since 2017, when 34 SPACs were listed with an average size of US$296m.

The longer-term impact of SPACs

Whilst the boom in SPAC activity can fairly be considered to be over, the concept of a 'blank cheque company' has now gained popular awareness and will most likely continue as a permanent feature of the IPO landscape – both in the USA and globally – albeit at levels more like those seen pre-2020.

Indeed, the UK has updated the regulatory requirements relating to SPACs as part of the broader measures to enhance the overall attractiveness and competitiveness of London's capital markets. The broader global economic conditions have thus far prevented any meaningful increase in the volume of SPAC activity in the UK, or Europe more broadly.

While there will be scenarios where they can be used to good effect, careful consideration should be given as to the suitability of using a SPAC as a route to IPO – whether as a company or investor. Companies finding themselves the target of a SPAC are advised to speak to professional advisers early on to understand how a de-SPAC transaction works, the risks involved, and what it means for the business.



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

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

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

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

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

What is the IPO Scanner?

Our free and easy-to-use IPO Scanner provides you with a headline assessment of your company's readiness to IPO, with analysis across nine key topics, from equity story, financial reporting, controls, and corporate governance, to newly-launching modules on ESG and transaction management.

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

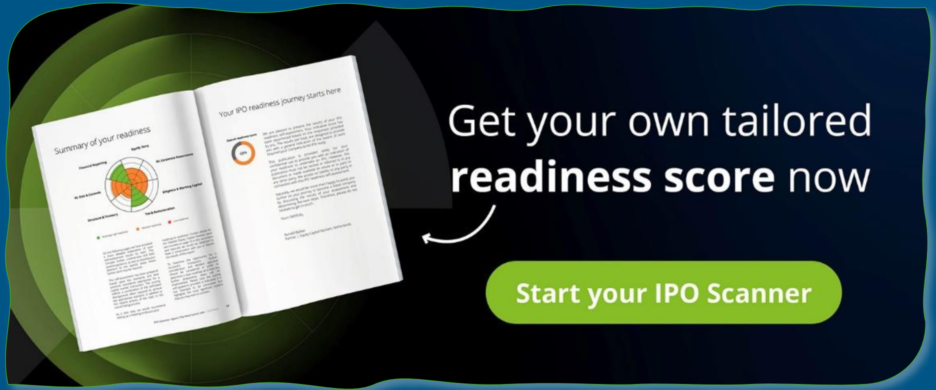
Next steps

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

Submit your name and contact details to start the IPO Scanner

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

Receive your free IPO readiness report – with further detail and commentary assessing your company's readiness across seven key categories



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Our services | Deloitte Equity Capital Markets

Our dedicated team of over 150 ECM professionals provide specialist expertise across the lifecycle of an IPO, SPAC transaction, M&A transaction, or equity fundraising. We have had a role in over 50% of London Main Market transactions in recent years, helping businesses maximise shareholder and stakeholder value, and navigate each stage of the process of raising equity capital in London.

In addition to London, our team has executed transactions on seventeen different international exchanges in the last five years, notably the United States for which we have dedicated SEC expertise.

Readiness assessment

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

ECM assist

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

Reporting accountant

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

Transaction management office

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

SPACs

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

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.

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Our partner team | Deloitte Equity Capital Markets

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