

A close-up, low-angle shot of a person in a starting crouch on a red running track. The person is wearing a black athletic top and blue and white sneakers. Their hands are on the ground, and their feet are in starting blocks. The background is a blurred green hedge and trees.

IPO Eye

An overview of the London Stock
Exchange listings in Q3 2016

UK IPO Market in the starting blocks

UK IPO highlights

3Q16 YTD

(Jan – Sept 2016)¹

Volume and value



London Main Market
12 deals
(43% decrease on 3Q15 YTD)



London AIM
28 deals
(17% increase on 3Q15 YTD)

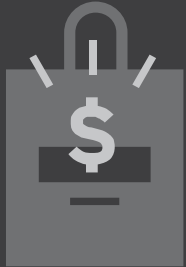


London Main Market
GBP£2.1bn
(56% decrease on 3Q15 YTD)



London AIM
GBP£0.8bn
(83% decrease on 3Q15 YTD)

Key trends



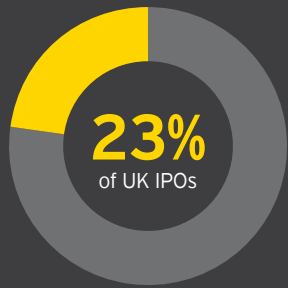
- ▶ The resolution of political uncertainty due to the EU referendum will see IPO activity pick up on the back of reduced volatility, rising indices and strong aftermarket performance of new IPOs
- ▶ US and Asian investors' interest will help drive pricing, making IPOs more attractive to business leaders and their backers
- ▶ While 2017 looks set for an IPO resurgence, longer term it is possible that the triggering of Article 50 and the renegotiation of Britain's trading relationships will drive volatility, which will impact IPO windows

Commentary

"The unexpected EU referendum result quickly sent the markets and the pound into decline, resulting in many firms postponing their IPO plans. However, following the markets' strong recovery and the added interest of US and Asian investors looking to take advantage of the weak pound, we now expect a number of firms to re-engage their IPO plans. With a number of very large IPOs rumored, we could see a resurgence of the UK IPO market in 2017, as firms look to take advantage of global investor interest in the UK market."

Scott McCubbin
EY UK and Ireland IPO Leader

Financial sponsors continue to drive UK IPO market



PE and VC accounted for 23% of UK IPOs (9 deals)

57% of proceeds
(GBP£1.7bn)



Three sectors trending



IPO pricing and performance

London Main Market²

+4.5% first-day average return

+24.1% increase in offer price vs. 28 September 2016

GBP£300.0mn median post-IPO market cap

GBP£154.8mn median deal size

Alternative Investment Market²

+11.0% first-day average return

+26.3% increase in offer price vs. 28 September 2016

GBP£43.8mn median post-IPO market cap

GBP£12.1mn median deal size

Equity indices³

FTSE 100

+9.7% ▲

FTSE 350

+8.4% ▲

FTSE AIM ALL SHARE

+10.7% ▲

Cross-border activity in 2Q16 YTD⁴

Italy had **two deals**; Guernsey, US and Malaysia had **one deal** each, raising **GBP£91.1mn** altogether on AIM.

Israel and Philippines had **one deal** each, raising **GBP£5.4mn** altogether on the London Main Market.



Top three IPOs in 3Q16 by capital raised

Hollywood Bowl Group plc	APQ Global Lt d.	Autins Group
raised	raised	raised
GBP£181mn (UK, Media and entertainment)	GBP£61mn (Guernsey, Financials)	GBP£27mn (UK, Materials)

1. 3Q16 YTD (January – September 2016) IPO activity is based on priced IPOs as of 29 September.
2. Pricing and performance is based on 12 IPOs on London Main Market and 28 IPOs on AIM that have started trading by 28 September. Data as per priced IPOs as of 29 September 2016.
3. Year-to-date returns of equity indices as of 28 September 2016.
4. There were seven cross-border IPOs on London Main and AIM in 3Q16 YTD.



Market overview

UK IPO activity pauses for the summer as the referendum result is absorbed by the market

The unexpected EU referendum result has compounded the slow first half of the year in the UK, which saw many businesses put their listing plans on hold. For the first nine months of 2016 there were a total of 46 IPOs on the London Main Market and AIM, raising a total of £3.1bn which saw a decrease of 47% in proceeds and 11% in volume compared with the same period in 2015. However, the summer months are a traditionally quiet period for the IPO market in the UK; a comparison of 3Q16 to 3Q15 reveals little change.

There were six IPOs in 3Q16, the same number as in 3Q15, but the capital raised was up 18%.

Newly listed stocks in 2016 have outperformed veteran assets, which are currently trading an average of 32% above list price, with only one stock with a very small negative growth.

There was only one PE backed IPO in this quarter.

Main market – two floats raised £183.3mn.
The largest was by Hollywood Bowl Group, the UK's largest ten-pin bowling operator.

AIM – four AIM admissions raised £42mn.
The largest was by Conference call software firm LoopUp Group plc.

A mostly steady third quarter in overall global IPO activity compared with 2Q16 masked very sharp regional differences. Asia-Pacific powered ahead, driven by receding concerns of a slowdown in the growth rate in Mainland China and a supportive regulatory environment, while US activity was subdued ahead of the presidential elections and activity in EMEA declined in the wake of the UK Brexit vote.

At US\$35.4bn, global IPO proceeds in 3Q16 were up 16% on 2Q16, while deal volume declined by 4% to 252 IPOs. Compared with 3Q15, IPO activity levels were relatively strong, with proceeds up by 84% and the number of deals up by 21%.



Market listings

New Issues – Main market

Date of admission	Company	PE backed	Country of incorporation	Region/s of domicile	Sector
27-Jul-16	WIDECCELLS GROUP plc		United Kingdom	United Kingdom	Health Care Equipment & Services
21-Sep-16	Hollywood Bowl Group plc	x	United Kingdom	United Kingdom	Technology Hardware & Equipment

New Issues – AIM

Date of admission	Company	PE backed	Country of incorporation	Region/s of domicile	Sector
26-Jul-16	SEC S.p.A.		Italy	United Kingdom	Media
05-Aug-16	Franchise Brands plc		United Kingdom	United Kingdom	General Retailers
22-Aug-16	Autins Group		United Kingdom	United Kingdom	Automobiles & Parts
24-Aug-16	LoopUp Group plc		United Kingdom	United Kingdom	Travel & Leisure

What constitutes an IPO?

- ▶ Not all new admissions, as listed by the London Stock Exchange, are defined as IPOs for the purposes of the commentary throughout this report. Our definition excludes secondaries, re-admissions, investment funds, transfers from AIM to Main (and vice-versa) and introductions where no money is being raised, or shares placed with new investors.



Market cap. on admission (£mn)	Funds raised (£mn)	Placing price (p)	Closing price (after first day of trading)	Closing price (at QTR end)	% change in price
7.0	2.0	11	11.375	15.75	43.18
240.0	181.3	160	171	169	5.63

Market cap. on admission (£mn)	Funds raised (£mn)	Placing price (p)	Closing price (after first day of trading)	Closing price (at QTR end)	% change in price
18.5	3.4	151.00	153	150	(0.99)
28.0	3.5	33.00	42	61	84.85
37.1	26.6	168.00	203	232	38.10
40.8	8.5	100.00	113	125	25.00

In this quarter

Four of the six UK listings that took place this quarter were on the AIM market as larger businesses decided to postpone their listings during this turbulent period. Reflecting the international implications of the Brexit vote, of the six IPOs that were priced and started trading in 3Q16, it is unusual that only one was a foreign business, SEC SpA, which is an Italian media and entertainment business that raised £3.4mn. The largest listing on the London Main Market was the operator of bowling centres, Hollywood Bowl Group plc, which was completed in the second half of September.

Due to the limited range of activity in 3Q16, no sector could be said to have dominated, but one deal on AIM was notable. Autins Group raised £26.6mn at a market capitalization of £37.1mn. Autins Group specializes in the design, manufacture and supply of acoustic and thermal insulation solutions primarily in the automotive sector, but is having a disruptive influence on other sectors as it broadens its focus to include white goods, power generation, marine, apparel, rail, commercial vehicles and industrial sectors.

Main market

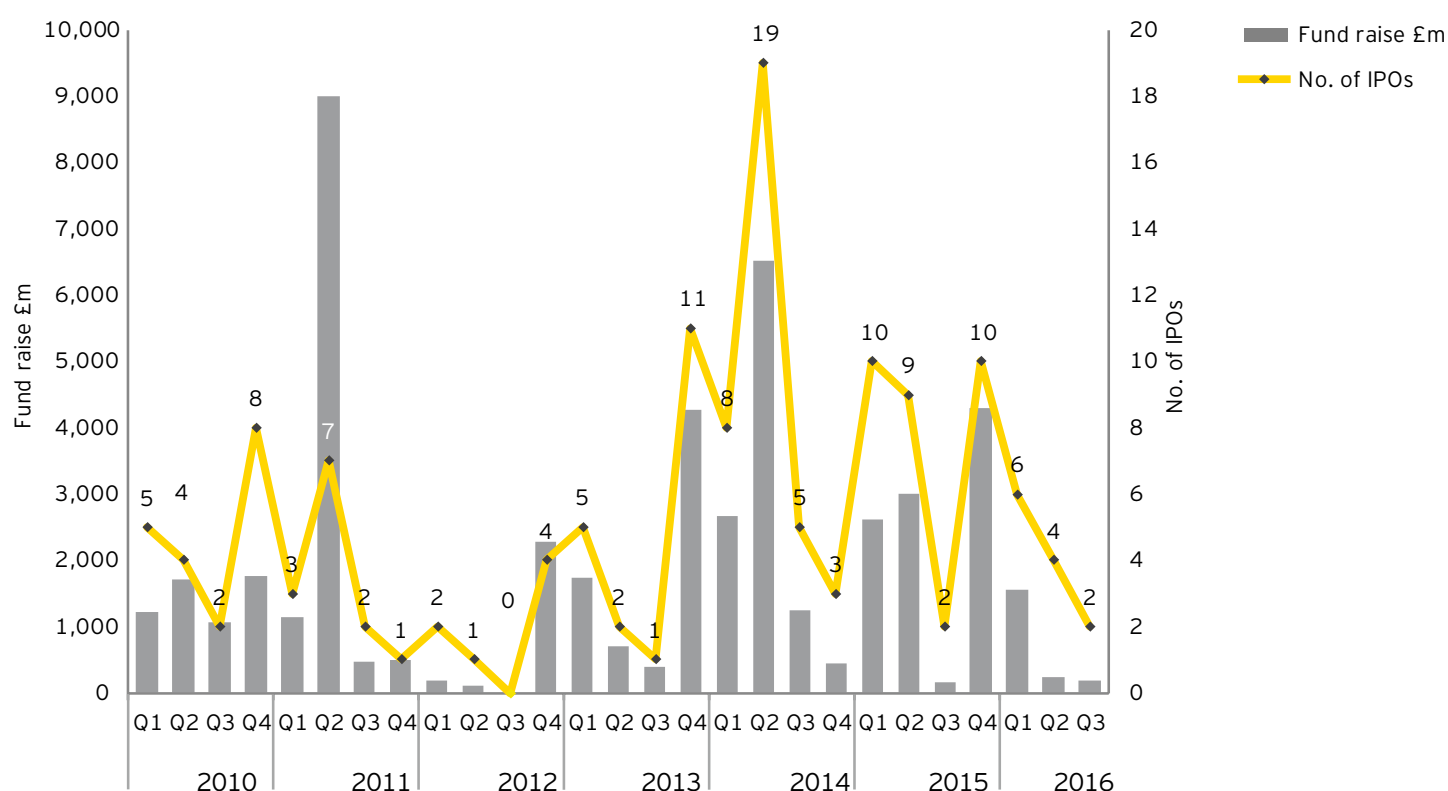
We saw two floats raising a total of £183.3mn in Q3.

WideCells raised £2mn in its initial public offering of shares at 11 pence each. The company is focused on collecting and storing stem cells and providing insurance for stem cell treatment, and plans to use the funds raised to help build its business.

Hollywood Bowl Group, the UK's largest ten-pin bowling operator made its £266mn initial public offering, raising £181.3mn.

The Group specialises in operating large, high quality bowling centres, predominantly located in out of town multi-use leisure parks (typically co-located with cinema and casual dining sites) and large retail parks with all of the centres being occupied by the Group on a leasehold basis. The centres are designed to offer a complete family entertainment experience with each centre offering at least 16 bowling lanes, on-site dining, licensed bars, and state-of-the-art family games arcades.

IPO Main market: historical performance





AIM

There were four AIM admissions raising £42mn in Q3.

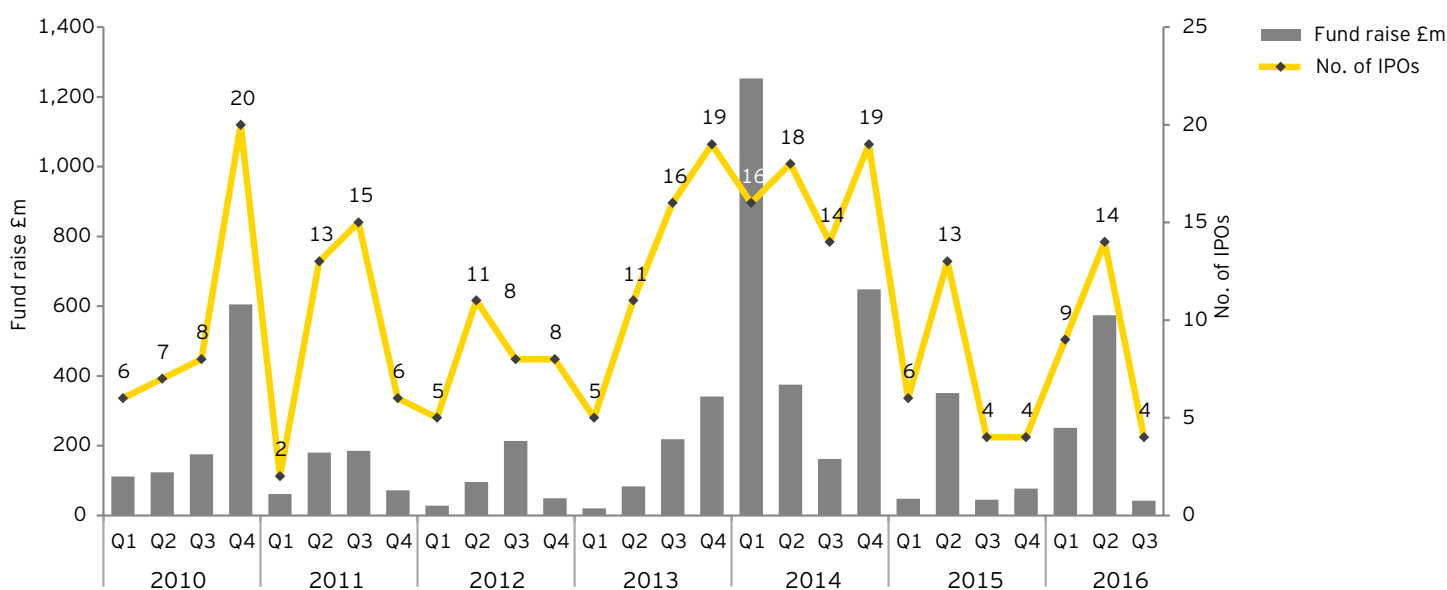
Italian PR agency SEC SpA raised £3.4mn in its float on AIM, after placing 12.2 million shares at 151.00 pence per share, with the balance raised going to the firm's selling shareholders. Its market capitalisation upon admission was £18.5mn.

The Milan-based firm has acquired stakes in a number of companies across Europe since its founding in 1989, with majority holdings in businesses in Italy, Belgium, Germany and Spain.

Franchise Brands plc raised £3.5mn in its initial public offering on AIM. The 'multi-brand franchisor' placed 10.6 million shares at 33 pence each, giving the company a market capitalisation on admission of £15.6mn. The £3.5mn raising is at the upper end of its £3mn to £3.5mn target.

The group has a combined network of over 350 franchisees in 12 countries, but predominately operates in the UK. Its current brands are mobile car paintwork repair brand ChipsAway, mobile domestic oven cleaning brand Ovensclean, and premium residential house cleaning brand MyHome. Its strategy is to focus on development of the franchise businesses that provide services to individuals and small-to-medium-sized enterprises.

IPO AIM market: historical performance

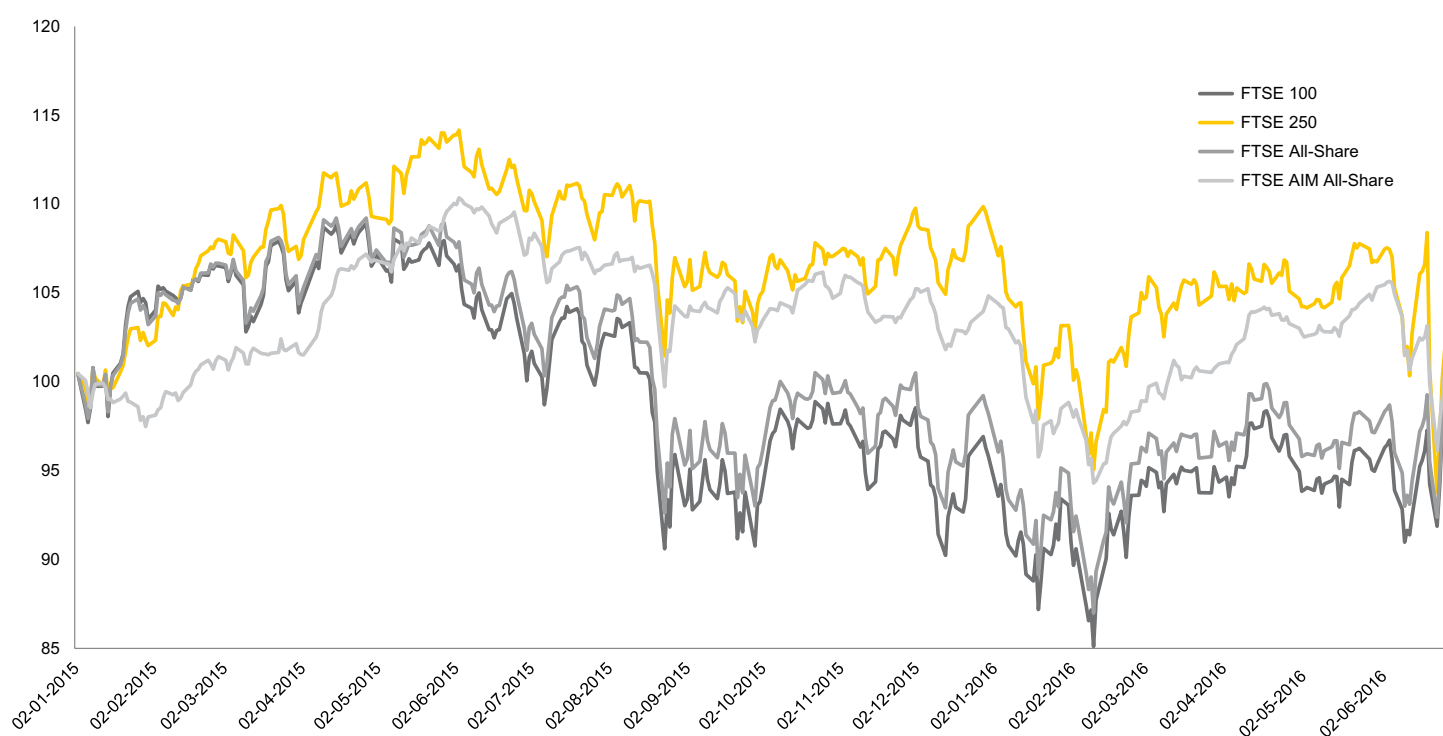


In this quarter

Automotive parts manufacturer Autins Group plc raised £26.6mn in gross proceeds from its float on AIM. Autins placed a total of 15.8 million shares at 168.00 pence per share, raising gross proceeds of £26.6mn, of which £14.0mn will be invested in the company, including on new product lines and equipment and on reducing debt. The rest of the funds will go to the selling shareholders.

The firm's market capitalisation upon admission was £37.1mn. Autins makes acoustic and thermal insulation products for the automotive sector. Conference call software firm LoopUp Group plc, raised £8.5mn on its admission to AIM. The £8.5mn was raised at 100 pence, giving it a market capitalisation of around £40.8mn on admission.

FTSE Indices: 1Q15 to 2Q16



Source: S&P Capital IQ



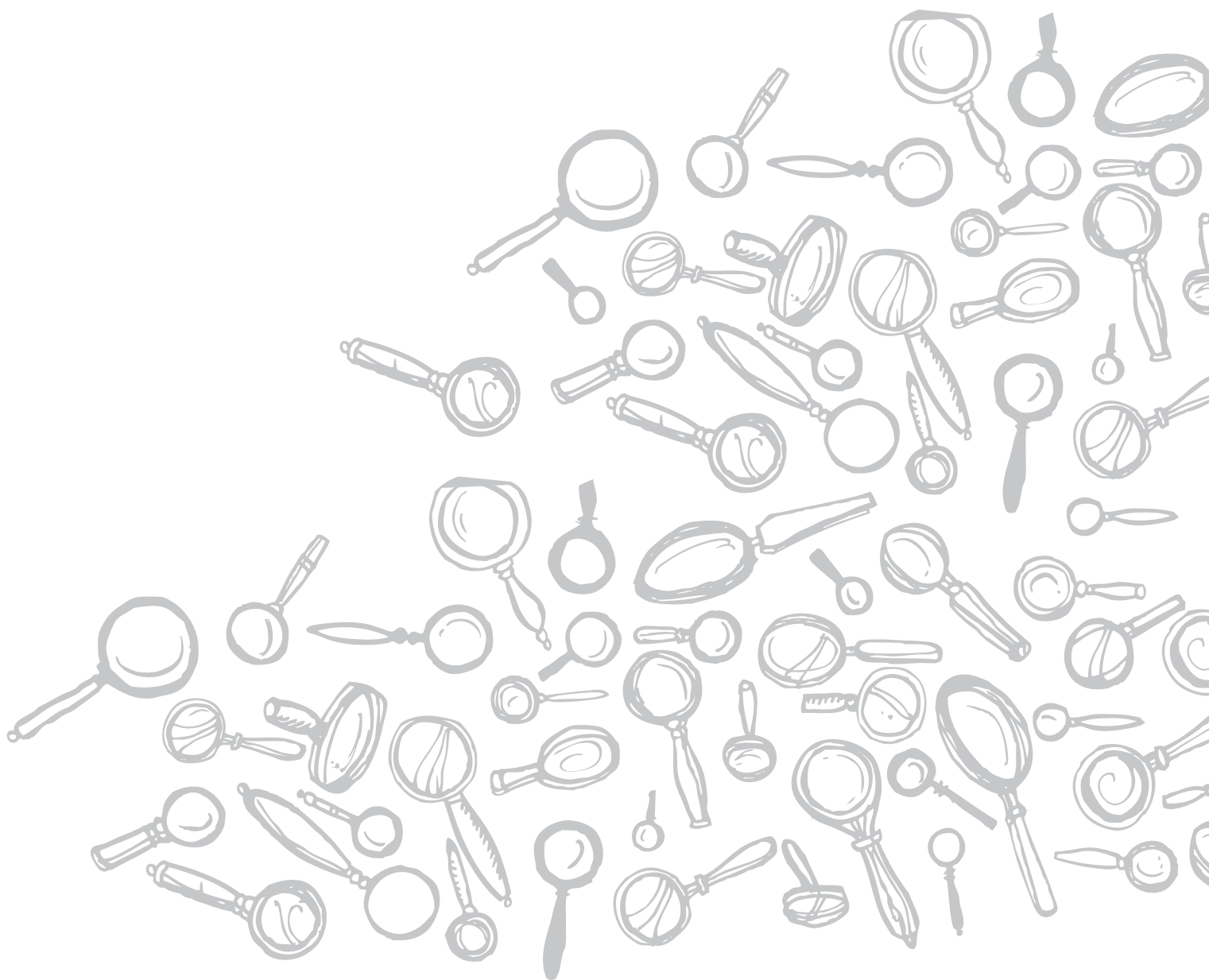
Aftermarket performance

Initially, at the start of 3Q16, equity indices fell significantly. However, at the time of writing, as the quarter comes to an end, markets are close to an 18-month high, which should lead to strong opportunities in 4Q16.

Newly listed stocks in 3Q16 have outperformed veteran assets, which are currently trading an average of 32% above list price, with only one stock with a very small negative growth.

Volatility

The resolution of political uncertainty due to the EU referendum will see IPO activity pick up on the back of reduced volatility, rising indices and strong aftermarket performance of new IPOs.





Looking forward

Although many of the businesses that have put their listing plans on hold are still set to revise their IPO timetables, the recovery in market pricing has made the IPO option attractive once again. In part, this has been driven by strong US and Asian interest in assets made cheaper by the weak pound and is particularly the case for those businesses with strong UK-based revenues. Against this backdrop, we are aware of a number of large IPOs in the pipeline which, if successful, could drive another period of strong IPO activity.

As always, it will be the specific characteristics and equity story of the individual companies that drive investor interest. Companies in the retail, technology, and media and entertainment sectors are likely to be the most attractive, mirroring previous quarters.

Stronger levels of participation by PE- and VC-backed businesses are likely to be another feature of 4Q16 IPO activity. PE-backed businesses typically have the scale and expertise to launch their listings quickly in an effort to take advantage of a positive change in investor confidence in the equity markets. If one of the scheduled larger IPOs launches successfully early in the quarter, this is likely to boost confidence and will likely inspire a raft of other sponsor-backed IPOs to take place.

Looking further ahead, we expect that improving economic fundamentals, high valuations and lower volatility will support IPO sentiment. We foresee that as greater geopolitical clarity emerges, IPO activity will pick up. While a return to the record levels of 2014 may be a stretch, we expect that activity in 2017 could surpass 2015.

It is possible that as we look ahead to 2017, debate over the future of the UK's trading relationships and the triggering of Article 50 will drive volatility, which will impact IPO windows. However, with a number of very large IPOs rumoured, it is likely that 2017 could see a resurgence of the UK IPO market as firms look to take advantage of global investor interest.

"The unexpected EU referendum result quickly sent the markets and the pound into decline, resulting in many firms postponing their IPO plans. However, following the markets' strong recovery and the added interest of US and Asian investors looking to take advantage of the weak pound, we now expect a number of firms to re-engage their IPO plans. With a number of very large IPOs rumored, we could see a resurgence of the UK IPO market in 2017, as firms look to take advantage of global investor interest in the UK market."

Scott McCubbin

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Notes



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