

# Mood of the Market

## H1 2024

171 ECM deals in H2 2023, equal to H2 2022 (171), though aggregate deal value +77%<sup>1</sup>

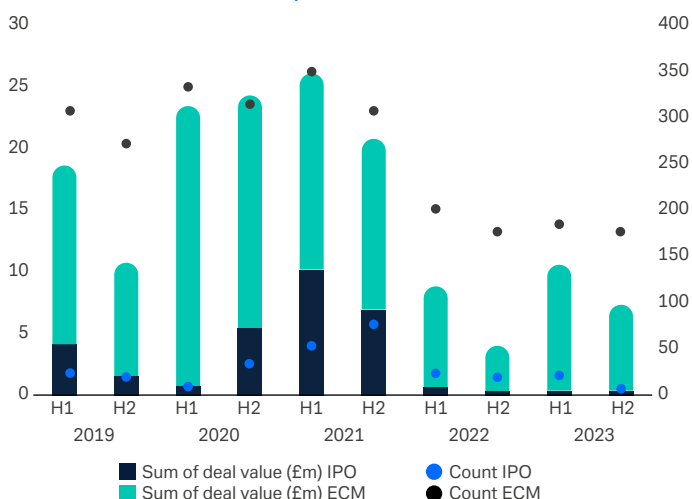
Overall, UK ECM issuance continues to be low although there are signs of increased follow-on activity in H1 2024

The UK IPO market remains muted, with 21 IPOs in the UK in 2023, and only 2 raising gross proceeds of more than £50m<sup>2</sup>

### A review of the half – H2 2023

- Volumes in H2 2023 continued to be subdued, meaning that overall issuance volume for the year was up +36% vs 2022 – but still down 63% from the highs of 2021.
- Against this quieter backdrop, Deutsche Numis nevertheless retained its leading role in the UK ECM market, ranking #1 overall by number of deals in 2023.
- The UK market remained supportive of companies' growth ambitions, with a number of our corporate clients raising equity to fund either M&A (e.g. YouGov - £51m) or investment/organic growth (e.g. Unite - £300m).
- However, many corporates were focused on managing their existing businesses rather than considering ambitious expansionary plans, given the challenging macro backdrop.
- There were healthier levels of secondary issuance – while there were relatively few deals those we did see were large and well supported, including sell-downs in Barclays, LSEG and Haleon.
- Unfortunately, the highest profile London IPO of the year – CAB Payments – downgraded full year expectations shortly after IPO.
- London did, however, continue to demonstrate its willingness to welcome international stories, with Zegona's €300m capital raise (effectively a London IPO of Vodafone Spain) being well supported and trading well in the aftermarket.
- Outflows from UK equities persisted in the second half of 2023, although we hear anecdotal evidence from fund managers of these pressures easing into the end of the year, whilst a significant amount of capital has been recycled back into the UK market via M&A.
- Overall, the mood feels markedly more positive as we move into 2024 and we believe there are a number of cyclical and structural reasons to be positive about the market, which we reference in our outlook on Page 2.

### UK ECM activity 2019-2023<sup>2</sup>



### UK ECM league table<sup>3</sup>

Deutsche Numis #1 by number of deals in 2023

Rank	Adviser	Deal Count
1	Deutsche Numis	14
2	JP Morgan	10
3	Barclays	8
4	BofA Securities	8
5	Morgan Stanley	8
6	Stifel	8
7	Canaccord	8
8	Peel Hunt	7
9	Citi	6
10	Goldman Sachs	6

<sup>1</sup> Dealogic January 2024.

<sup>2</sup> London Stock Exchange (includes IPOs that are categorised as a "New Company placing" & "Offer for Subscription – New Company" by the LSEG),

Market: AIM, UK Main Market, January 2024

<sup>3</sup> Bloomberg trading Date, 2023, ECM including IPOs, London Exchange, Deal size >\$20m, including Deutsche Bank UK deals

## Recent Deutsche Numis ECM case studies

### UNITE STUDENTS

- Deutsche Numis acted on Unite's £300m equity raise (c.8% of ISC) in July 2023, with use of proceeds to match targeted development and asset management opportunities.
- A good example of investors backing a management team with a strong track record and a clearly defined use of proceeds.
- Book was multiple times oversubscribed, with very strong demand from new and existing investors, and over half of the shares allocated to international investors.

**4.2%**  
discount to the closing price<sup>1</sup>

**+11%**  
share price performance post placing<sup>2</sup>

### Molten

- Deutsche Numis acted on Molten's £55m placing and subscription (c.13.3% of ISC) in November 2023 to position itself to capture exceptional secondary and primary investment opportunities.
- Deal priced at 270 pence per share in a fixed price deal, a c.11.9% premium to the 3-month volume-weighted average price.
- Strong support from existing shareholders and two cornerstone accounts, Blackrock and British Patient Capital.
- Alongside the fundraising, Molten also announced a £41m recommended all-share acquisition for Forward Partners plc.

**11.9%**  
premium to the 3-month VWAP<sup>1</sup>

**-10%**  
share price performance post placing<sup>2</sup>

### ZEGONA COMMUNICATIONS

- Deutsche Bank acted on Zegona's €300m placing in November 2023 in connection with the €5bn acquisition and effective IPO of Vodafone Spain.
- Vodafone is the no.3 telecoms operator in Spain, with significant market shares in mobile, broadband and TV, generating €3.9bn revenue.
- At the offer price of £1.50 per share, Zegona had an implied market capitalisation of approximately €1.2bn.
- Showcased the strength of the combined Deutsche Numis platform and its best-in-class equity capabilities, especially for UK listed clients.

**380.8%**  
premium to the closing price<sup>1</sup>

**+61%**  
share price performance post placing<sup>2</sup>

### LSEG

- Deutsche Bank acted on the secondary sale of shares in LSEG on behalf of a consortium of investors, including Blackstone, CPPIB, GIC and Thomson Reuters. Third secondary placing in LSEG in 2023 by the Blackstone consortium raising a total of £6.6bn.
- Sale of 25.5m shares at £79.50 equated to gross proceeds of £2.0bn, alongside a directed buyback of 8.2m shares and sale of call options over 8.2m shares.
- Multiple times oversubscribed, with significant demand from new and existing global investors.

**3.8%**  
discount to the closing price<sup>1</sup>

**+12%**  
share price performance post placing<sup>2</sup>

## Outlook for H1 2024

### Looking ahead – the Deutsche Numis view

- After two years of subdued activity, there are a number of cyclical and structural reasons to be positive about ECM in 2024 – a view reinforced by our conversations with potential issuers and investors.
- The outlook for the UK is optimistic, and our proprietary investor survey suggests that fund managers are generally positive on the potential for the UK market to outperform this year.
- Our survey also indicates that UK fund managers are looking to put money to work both through buying new issues and backing existing companies to grow – albeit the initial hurdle for IPOs will be high.

- In terms of where we expect ECM activity to focus, balance sheets in UK PLCs remain mostly robust, so we do not expect a raft of liquidity-related fundraisings.
- On the other hand, corporate confidence feels in a much better place and we are likely to see companies getting back on the front foot to revisit growth plans that have been on hold during 2023.
- We expect that secondary sell-downs will continue, but broaden away from the small number of large, albeit successful, placings last year. There remains a very significant private equity overhang amongst the IPO class of 2021 and we expect that something will have to give here this year.
- We expect IPO volumes to increase in 2024, a trend we are already seeing

in Continental Europe, where the IPO market has made a strong start. Deutsche Bank has already priced the Athens Airport and Renk IPOs since the turn of the year.

- Given lead times, we expect UK IPO activity to be second-half weighted, but UK investors are keen to see more high quality companies joining the market at a time when the volume of M&A has meant the investible universe for an active fund manager has been shrinking.
- In summary, we feel decidedly more positive about the outlook for 2024, with companies generally in good financial health and a strong outlook for the UK.

<sup>1</sup> Dealogic, February 2024 <sup>2</sup> Refinitiv Eikon, performance from placing price to 16 February 2024

## Institutional investor survey<sup>1</sup>

**90%** of investors are keen to meet prospective IPO candidates, up from 84% last year

**85%** of investors feel it is likely that they would invest in a UK IPO this year, vs 78% last year

**51%** of investors are currently holding a higher cash balance than they were at the start of the year, although our investor survey suggests that many are actively looking to deploy this capital

**84%** are as or more positive on the outlook for the UK now than they were at the start of 2023

### Q1: Would you still be willing to meet with prospective IPO candidates?

- There remains a keen willingness amongst investors to meet with prospective IPO candidates, although the bar is relatively high - needs to be a differentiated investment case.
- Clear desire to support quality companies in coming to the market, though some investors cited a reticence to invest too much time if the company is not committed to a process.

*"Yes we, are always willing to meet companies looking to list."*

*"Yes, if it is a good company and a well-managed process."*

*"Yes, albeit would prefer to meet once committed to an IPO rather than speculatively as part of dual track."*

### Q2: Do you think it's likely that you would invest in an IPO in the current environment?

- The equity story must be clearly defined, and there is a clear preference for companies with a differentiated investment case to those companies listed on the market.
- Conservative setting of forecasts at IPO is unsurprisingly a significant focus for investors, given the underperformance of some of the recent listings.

*"We would absolutely still invest in an IPO with the right characteristics."*

*"The bar for participation is probably higher than usual given performance of recent IPOs."*

*"Valuation needs to be attractive relative to other listed companies in which we can invest."*

### Q3: Do you expect an increased level of balance sheet/liquidity-related fundraisings in the first half of 2023?

- Overall feeling from investors is that UK balance sheets of UK PLCs are generally in good health, with very few expecting liquidity-related fundraisings from their portfolio companies.
- Whilst a number of companies have pushed refinancings into 2024, the absolute levels of debt are low, and the refinancing burden is likely to be felt more keenly in private equity.

*"I don't think there will be too many balance sheet/liquidity raises, I just don't see that much debt in the market."*

*"Probably slightly more, as rates have come down a bit and also corporates probably delayed refinancing in 2023."*

*"Not really, with a few exceptions balance sheets are generally in good shape."*



<sup>1</sup> Deutsche Numis surveyed 200 institutional investors in UK equities and our sales team held over 130 start-of-year ideas meetings with buy-side clients.



## Institutional investor survey (continued)<sup>1</sup>

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### Q4: Would you be willing to support equity fundraisings for existing/non-holdings to support balance sheets?

- Whilst investors aren't expecting many such fundraisings, there remains a general willingness to support portfolio companies if the rationale is clear and it properly fixes the problem.
- Likewise, a number of investors have commented that these can represent interesting opportunities to take new positions if any such raise is setting a company up for future growth.

*"Where there is a justified reason for the raise and our conviction in the investment case is unchanged or improved."*

*"These tend to be good liquidity opportunities for us if the pricing is correct and the underlying business is still strong."*

*"Yes, where valuation opportunity appropriately compensates for what is typically a higher risk profile."*

### Q5: Would you be willing to support equity fundraisings for existing/non-holdings to fund M&A/growth?

- This remains an area where investors remain generally positive about supporting companies, particularly if management have built up a good track record of delivering value from M&A.
- Quality bar is that much higher for funding transformational M&A vs bolt-ons/organic growth initiatives, and issue price must be a key factor in determining the attractiveness of any equity-funded acquisition.

*"As ever, this needs to show high probability attractive returns accretion – bearing in mind a higher discount rate these days."*

*"Yes, I would fund M&A growth, but would rather not be doing blind raises, I would like to be able to see what deal I'm supporting."*

*"Yes, where management teams have developed a track record of execution and it can be demonstrated that funds to be deployed should be highly returning."*

### Q6: Are you more or less positive on the outlook for the market than you were coming out of 2023?

- Wide-ranging investor views on the outlook for 2024, and whilst investors remain relatively positive going into the year, a number have noted significant geopolitical risks ahead.
- General view that there is plenty of valuation upside in the UK listed universe, although some investors commented that they feel earnings risk remains relatively high.

*"Our view was always soft landing/no recession. Now it feels like a consensus view, which brings position risk, and the Middle East outlook is worrying."*

*"Very bullish on the valuation upside, albeit earnings risks remain high."*

*"In spite of macro uncertainty, we are positive on European SMID caps – still plenty of value out there."*

### Q7: Are you holding a higher or lower proportion of your fund in cash versus last year and do you expect this to change?

- Investors are, on the whole, pretty fully invested, which reflects a general sense of cautious optimism for the year ahead.
- In many cases, a lot of cash has come back via M&A, given the wave of take-privates in the UK, but investors are generally all looking to recycle this cash back into the market.

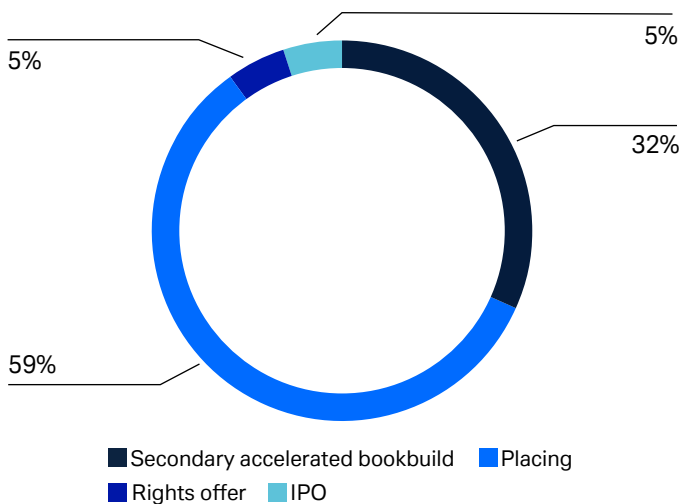
*"We are raising more cash to deploy in 2024/2025, as we believe it will be a good opportunity set (although volatile)."*

*"Slightly higher, but this is a function of several bids. We are looking for reinvestment candidates, but cautious unless we know the business very well."*

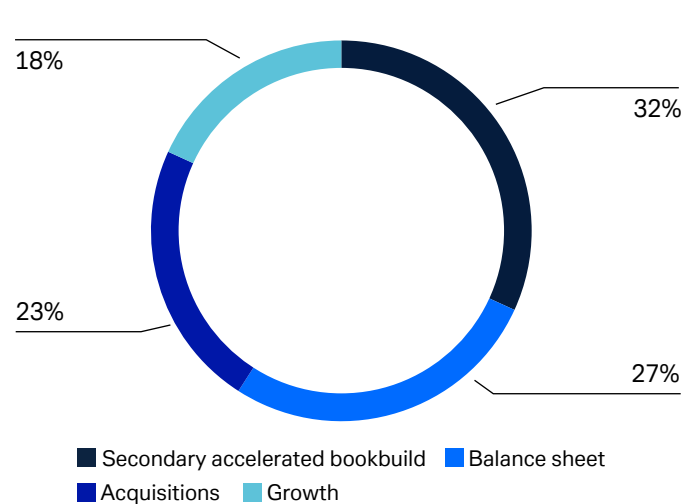
*"Had built it up a bit and want to retain cash to deploy as opportunities arise, so in general we will look to have cash to deploy..."*

<sup>1</sup> Deutsche Numis surveyed 200 institutional investors in UK equities and our sales team held over 130 start-of-year ideas meetings with buy-side clients.

## Deals by type<sup>1,3</sup>




## Deals by use of proceeds<sup>1,3</sup>



## H2 2023 UK ECM activity<sup>1,2</sup>

Date	Company	Sector	Market cap (£m)	Type	Deal value (£m)	Premium/Discount	Performance since placing
06-Jul-23	CAB Payments Holdings plc	FIG	851	IPO	291	-	(66.5%)
07-Jul-23	YouGov plc	TMT	1,118	Placing	51	(3.7%)	33.7%
25-Jul-23	Unite Group plc	BPRE	4,113	Placing	296	(4.2%)	10.7%
28-Jul-23	Darktrace plc	TMT	2,741	Secondary ABB	77	(5.4%)	(5.1%)
01-Aug-23	Aston Martin Lagonda Global Holdings plc	Industrials	3,140	Placing	211	(6.2%)	(54.3%)
07-Sep-23	London Stock Exchange Group plc	FIG	41,286	Secondary ABB	2,027	(3.8%)	11.0%
28-Sep-23	Yellow Cake plc	FIG	1,246	Placing	103	(2.2%)	25.8%
29-Sep-23	Severn Trent plc	Industrials	6,766	Placing	493	(5.1%)	18.8%
06-Oct-23	Haleon plc	Consumer	31,051	Secondary ABB	886	(2.3%)	(1.5%)
09-Oct-23	Metro Bank Holdings plc	FIG	304	Placing	150	(33.7%)	24.5%
11-Oct-23	Big Yellow Group plc	BPRE	1,907	Placing	108	(2.9%)	13.2%
13-Oct-23	Synthomer plc	Industrials	560	Rights Offer	192	(83.8%)	(20.9%)
07-Nov-23	XP Power Ltd	TMT	244	Placing	44	11.0%	(15.8%)
13-Nov-23	Zegona Communications plc	TMT	56	Placing	262	390.9%	61.3%
20-Nov-23	Sirius Real Estate Ltd	BPRE	1,193	Placing	145	(5.9%)	(3.3%)
22-Nov-23	SigmaRoc plc	BPRE	567	Placing	199	(5.4%)	36.8%
27-Nov-23	Molten Ventures plc	FIG	449	Placing	45	(3.2%)	(10.2%)
04-Dec-23	Barclays plc	FIG	21,639	Secondary ABB	510	(1.4%)	4.1%
07-Dec-23	Videndum plc	Consumer	256	Placing and Open Offer	125	(3.3%)	26.2%
13-Dec-23	B&M European Value Retail SA	Consumer	6,021	Secondary ABB	162	3.0%	(11.6%)
13-Dec-23	Energiean plc	Oil & Gas	1,764	Secondary ABB	41	(2.4%)	5.2%

 Deutsche Numis transactions<sup>5</sup>

<sup>1</sup> Dealogic, 16 February 2024, includes all deals >£40m size

<sup>2</sup> Refinitiv Eikon, 16 February 2024

<sup>3</sup> Company announcements, various

<sup>4</sup> Performance from offer price to 16 February 2024

<sup>5</sup> Includes Deutsche Bank transactions

## New partnerships. New opportunities.

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