



Could promoting a super-sector help fortify the UK market?

Exchanges around the world are often associated with a super-sector, such as luxury goods in France or technology and healthcare in the US. Promoting a definitive super-sector for the UK market, particularly if this is backed up with strong government support, could be a powerful tool in the bid to fortify London's position as a leading capital markets centre over the long term.



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The number of listings dropped significantly this year, with just 23 on the UK main market and AIM during the first nine months.¹ But the UK is far from alone, as our panel of experts discussed at the recent FT LIVE in partnership with Deutsche Numis webinar, *Reviving the UK IPO Market*². H1 data for Europe revealed the smallest amount raised since the depths

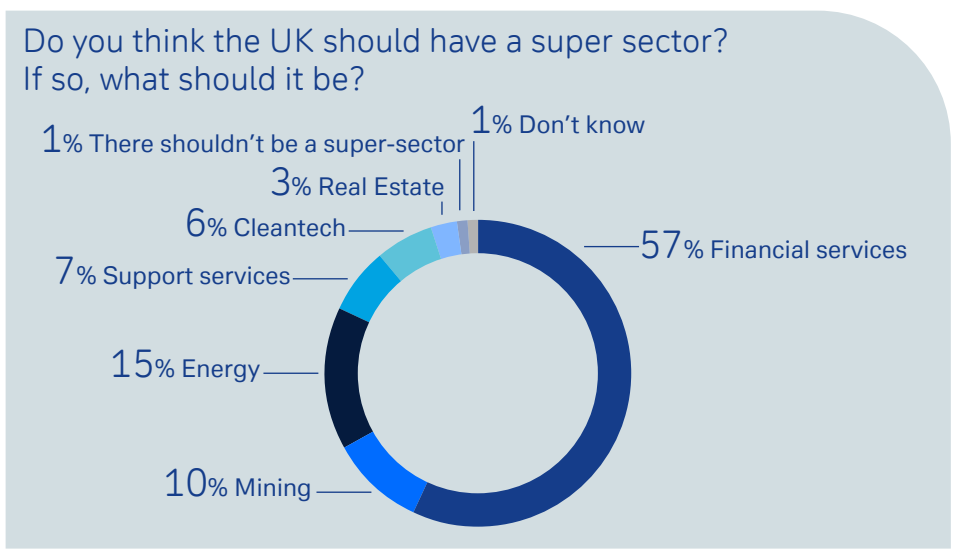
of the financial crisis in 2009. Just 34 companies went public, raising €2.4bn.³ Likewise, global fundraising plunged by almost a third (32%) to \$101.2bn for the first three quarters.⁴ London remains a thriving capital market regardless of this challenging period – it is still one of the largest capital markets in Europe⁵ and there is a deep pool of investors in the UK –

but there are steps that market stakeholders could take to fortify and future-proof its appeal.

Championing a super-sector

The Reviving the UK IPO Market webinar panel keenly debated the merits of championing a super-sector within the wider market. While fintech is booming, the UK boasts a compelling number of other sub-sectors that are being amplified by technology, as well as pure-play tech firms supported by the expertise of the nation's leading universities.

Deutsche Numis' recent survey of 150 FTSE leaders of UK-listed companies⁶ found nearly six in 10 (57%) think financial services is the most obvious candidate, with the burgeoning fintech space a key component. Fintech in the UK already has an edge, with around 10% of global fintech unicorns being UK-based⁷.



1 EY: IPO proceeds on London stock market fell 36% yoy in Q3 2023 (4 October 2023)
 2 FT LIVE in partnership with Deutsche Numis: Webinar (10 October 2023)
 3 Financial Times: European IPOs fall to lowest level since 2009 (2 August 2023)
 4 EY: Global IPO market: Investor appetite shifts from growth to value amid tighter liquidity (28 September 2023)
 5 statista: Largest stock exchanges in Europe as of June 2023, by domestic market capitalization (June 2023)
 6 Deutsche Numis: Raised in London report (July 2023) In May 2023, Deutsche Numis commissioned a FTSE Leaders' survey on capital markets. The responses are based on 150 board/senior directors of UK-listed companies, of which 27% work for FTSE 100 companies; 27% for FTSE 250 companies; 33% for AIM companies and 13% for other FTSE listed companies. Respondents are CEOs, CFOs, heads of investor relations, senior independent directors and chairpersons.
 7 Top FinTech Companies in the UK to Know About in 2023 (March 2023)



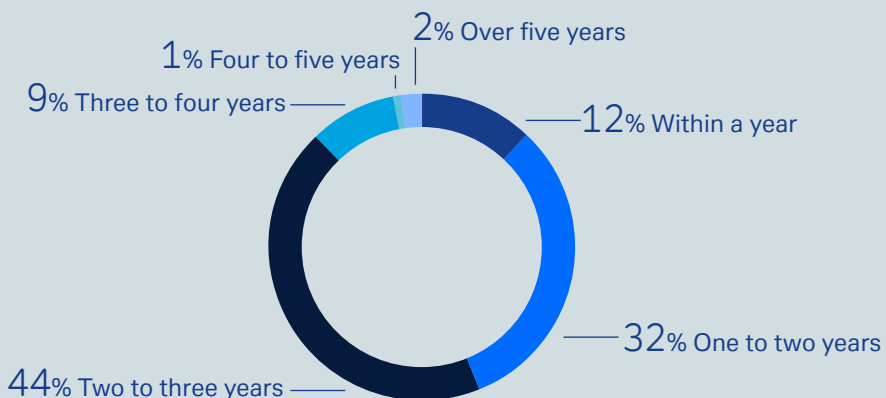
Another super-sector option could arise if the push for the UK's energy companies to transition in line with net-zero emissions targets develops into a leading cleantech sector, which was also highlighted by 6% of FTSE leaders in our survey – bearing in mind that UK companies attract 18% of Europe's total investment in this sector⁸.

However, while a super-sector could be a powerful tool to enhance the competitiveness of the UK market, government support and initiatives will be a key requirement for its prioritisation and promotion. Therefore, the debate regarding which sector to back should be integral to the ongoing market review.

The IPO barometer

While London has not been able to escape the global downturn in IPOs, the structural drivers behind this, chiefly the amplified

If they have plans to list / do an IPO, when do you think this will happen?



depth and breadth of private markets over the past 10 years, have been exacerbated in the UK by high-profile names – most notably chipmaker Arm – opting to list in the US, where they may attract a higher valuation. However, it is important to note that this only pertains to a very small number of UK companies.

The UK certainly has the right homegrown high-growth companies for IPOs to revive

– there are over 100 unicorns in the UK currently – so it is imperative that market participants consider the attractiveness of the UK from all angles and not take IPOs as the sole barometer of success. For example, it is worth noting that the UK scores very well on multi-baggers – that is, equity shares of a company capable of creating returns several times higher than their associated cost of acquisition. The UK has more examples proportionately than the US market⁹, which is not generally part of the wider, often more negative, narrative.

In our recent survey on the state of growth capital markets¹⁰, of the 80% of founders planning to list, 87% said an IPO was within their three-year view, so many private companies clearly have an eye on floating in the relatively near term. UK founders have increasingly been focused on global IPO options.



⁸ UK companies attract 18% of Europe's total investment in cleantech (29 April 2022)

⁹ FT LIVE in partnership with Deutsche Numis: Webinar (10 October 2023)

¹⁰ State of Growth Capital: European Founders & Global Investors (June 2023) Deutsche Numis surveyed 205 senior executives at high-growth private companies across Europe and 200 global private investors. Deutsche Numis: Raised in London report (July 2023)



London previously represented the default destination for UK-based firms, but European bourses such as Frankfurt and Amsterdam are presenting ever-increasing competition. Therefore, now more than ever, we need to persuade our domestic founder-backed companies of the appeal of our public markets. We want to be sure that the UK is seen as the default destination for those businesses when they come to IPO.

Policymakers are highly cognisant of the issue and, of all the market initiatives that are being considered and implemented, several specifically target founder-led companies. These include allowing dual-class share structures, allowing founders to maintain a higher degree of control over their companies after floating, removing shareholder approval requirements for significant transactions and related party transactions and a reduced 10% free-float requirement. These should go some way to enticing founders back to market when conditions improve.

Technology could be key

Recent initiatives from policymakers have focused on shining a spotlight on all the regulatory pushes that encouraged money away from equity investment and into fixed income. Our recent research¹¹ revealed that a very significant majority of FTSE leaders are in agreement (91%) that channelling pension capital into the UK market would meaningfully improve valuations, thereby encouraging IPO activity.

One reason pension funds choose not to invest in the UK could be because today's market is dominated by mining and financial services¹² – rather than leveraging the deep technology that exists in UK universities to create great companies that have the potential to scale rapidly within our domestic markets. With some of the world's biggest companies – not least the famous five 'Big Tech' companies: Alphabet (Google), Amazon, Apple, Meta (Facebook) and Microsoft – arising from this sector, technology has a clear stronghold on the global economy



and is expected to continue to dominate in the future. The UK is well-equipped to nurture technology companies, so is already in an advantageous position – but promoting technology as its super-sector could be the edge it needs to drive the market forwards.

Future-proofing London

The pressure is now on to embed the latest initiatives aimed at fortifying the UK capital markets, including the creation of a super-sector that will improve the competitiveness of the UK and prepare the market for long-term success. While industry debate, government support and regulatory reforms will all play an important role, the UK is already primed for the creation of a super-sector, so developing its existing capabilities in technology encompassing fintech and cleantech could enable a market revival that thrives well into the future.



¹¹ Deutsche Numis: Raised in London report (July 2023)
¹² FT LIVE in partnership with Deutsche Numis: Webinar (10 October 2023)

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