Radnor View

2021: A fresh start?

27th January 2021

A recap of 2020

Positive or negative, 2020 was a roller coaster, headscratcher and eye opener in equal doses. Capital markets have been reshaped for decades to come and we move into 2021 with a new agenda. With so many forces at play over the past twelve months, in the first *Radnor View* of the new year, we examine some of the themes that played out in 2020 and what indeed this could mean for the year ahead.

So, what happened in 2020?

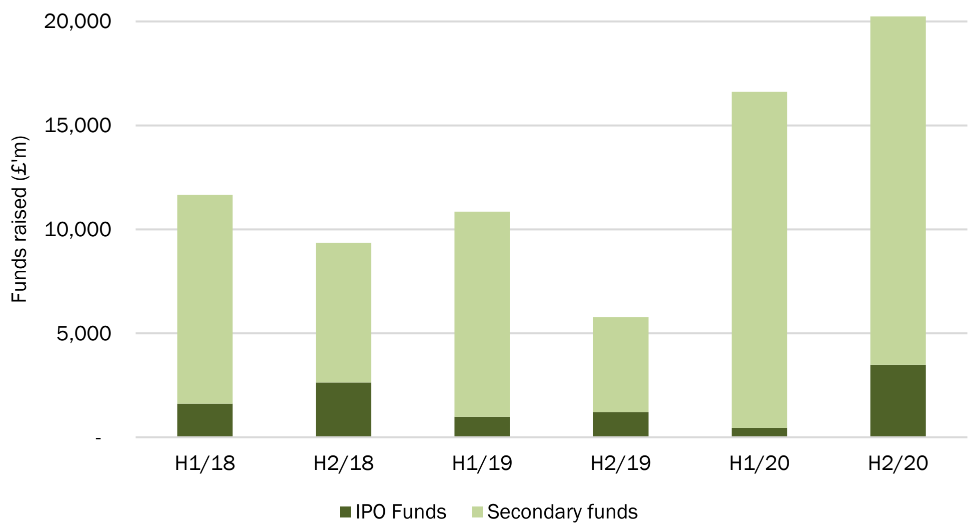
- **Investors have deeper pockets than thought.** With nearly £40bn raised across both the IPO and secondary transactions, shown in Figure B (below), ostensibly investors can *always* find the funds, particularly for 'a bargain'. 2020 saw over double the funds raised versus both 2019 and 2018;
- **Small caps share prices actually increased over the year**. As shown in Figure A (below), the FTSE Small Cap and AIM indices finished 3% and 20% higher, respectively. Quite a result given the initial 40% declines, reflecting a near 100% recovery from the low point. Small cap outperformed large cap;
- **ESG rapidly moved to the fore.** In reality, this is a complex beast, with many moving parts. Nevertheless, most companies are appreciating the growing prominence of having a strong sustainability argument and are making conscious efforts to integrate real changes. Figure C (below) demonstrates that well over £2bn of investor cash found its way into sustainable closed end funds (largely renewable infrastructure plays) or pure-ESG operating companies across both the IPO and secondary markets. This level of investment has eclipsed any other previous period and we expect it will continue.

Figures A, B, C – 2020 in numbers

Figure A – UK Index movements

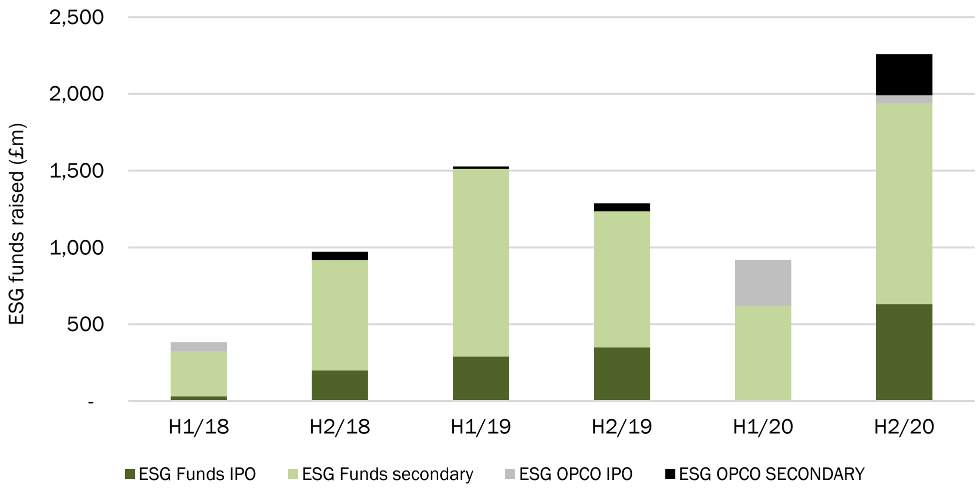
	Year change	Initial Covid fall	Covid trough to YE
FTSE 100	*-14%*	*-34%*	*29%*
FTSE 250	*-6%*	*-41%*	*60%*
FTSE Small	*3%*	*-39%*	*71%*
FTSE AIM	*20%*	*-39%*	*96%*

Figure B – Funds raised by half year (IPOs & secondaries)



Source: London Stock Exchange

Figure C – Funds invested into ESG Closed End Funds and ESG Opcos



Source: London Stock Exchange, Radnor Capital

Looking forward

Investors are looking to 2021 with a renewed optimism, albeit balanced with healthy doses of realism. Conversations with the investment community remain as strong as ever and we are uncovering a number of interesting themes that have scope to play out over the coming twelve months, and beyond.

M&A

We have witnessed a number of high-profile takeovers (and attempts) in recent months, with names such as the below exiting the public markets:

- Entain (*Failed* attempt by MGM for c.£8bn)
- Calisen (BlackRock for c£1.4bn)
- Codemasters (Electronic Arts for c£945m)
- Applegreen (Blackstone Infrastructure Partners for c£654m)
- GoCo (Future for c£594m)
- IMIMobile (Cisco for c£543m)
- Urban&Civic (Wellcome Trust for c£506m)
- Scapa Group (Offer by Schweitzer-Mauduit for c.£403m)

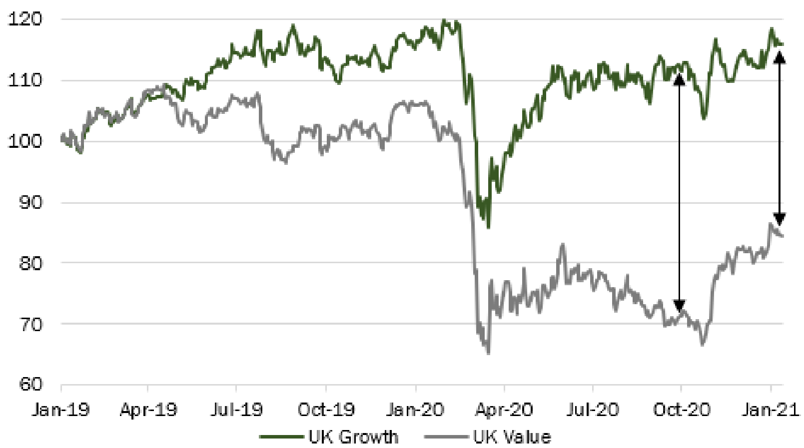
Conversations suggest that with continued vaccination progress, alongside Brexit uncertainty moving into the rear-view mirror, the UK offers many attractively priced assets, particularly given sterling remains at a relative long-term weakness. Private equity and US-corporates have not been slow at swooping in to purchase growth assets at reasonable multiples. We wonder whether this be a recurring theme in 2021 and will the focus necessarily remain on growth stocks given the value apparent in UK plc?

Growth vs Value

The polarisation between these two investment styles has not been this pronounced for a long time. Following the extreme volatility in the early days of Covid, investors favoured tech, e-commerce and trusty defensives; sectors that generally continued to operate in a world where lockdowns and stringent social distancing became the norm. As such, visibility over trading and importantly, cash flows, enabled these companies to navigate through the crisis while continuing to target top line growth.

The result? A demonstrable re-rating of the classic growth sectors. Conversely, those sectors that were typically viewed as 'cheap' prior to the pandemic struggled to regain early losses. Moreover, sectors such as Leisure and High Street Retail and Industrials had to work very hard, particularly in the early days, to stay above water. Figure D (below) shows the extent of share price performance between growth and value stocks since January 2019.

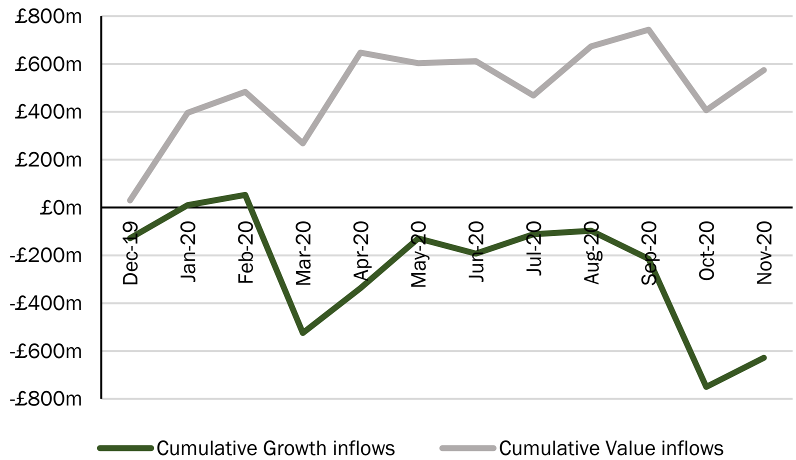
Figure D – Growth vs Value: A gap set to narrow further?



Source: Factset

From our initial conversations, investors are now turning an eye to those companies whose intrinsic value moving into a more normal environment is demonstrably higher than current share prices suggest. Data also backs this up, with an early shift already from growth to value funds in the UK, demonstrated in Figure E. Whilst £600m is a fairly modest quantum in today's world, it nonetheless suggests there is a direction of travel. Is it Value's time to shine?

Figure E – Growth vs Value cumulative inflows



Source: Factset

With the growth vs value argument in mind, we highlight a few trends that could play out during 2021 as investors seek returns outside of traditional highly valued stocks in a zero interest environment:

- Industrial cyclical recovery;
- Events-based businesses returning to activity and, importantly, cash flow positive;
- Winners in a radically different industries such as tourism, leisure, retail, hospitality, etc;
- A fairer value for resilient but overlooked property (eg. Offices).

ESG is a <u>real</u> thing
Regardless of sector winners and losers, ESG will continue to dominate investment cases. It is widely understood that ESG has shifted from largely an afterthought to a strategic cornerstone for many companies. 2020 saw the true advent of renewable energy interest from investors and consequently the requirement for clear structure and sustainability priorities. Navigating this landscape has not been easy hitherto, and whilst the finer details required to compare companies' ESG credentials are yet to be fully finalised, being proactive will be viewed favourably by investors. Direction of travel is equally as important as the end result. Where Blackrock are asking for companies to disclose a plan for how their business model will be compatible with a net zero economy, others will follow. Companies should also remember that ESG is not just about hydrogen and fuel cells.

According to the Financial Times, ESG focussed ETFs jumped three-fold during 2020 to $174bn ($59bn at 2019 end). Substantial sums are also finding their way into more active funds. Investors of all shapes and sizes - from tier 1 institutions down to boutique private wealth firms - are waking up to the reality that ultimately all investable capital must be ESG sensitive capital.

A structured IR strategy has never been more important

What is abundantly clear is that 2021 will not include a three-month pause in 'normal' capital markets activity as 2020 did during March through June. As normality hopefully returns this year, investors' schedules will undoubtedly become very congested and companies compete for face time. What can corporates do to ensure a positive capital markets outcome for 2021?

- **Prepare early.** As we move into 2021, investor schedules will undoubtedly become congested and attention will be in high demand. Preparation and differentiation will therefore be key. Management teams should be preparing strategies and equity messaging **<u>now</u>**. Moreover, many of our conversations point to CMDs being a common place later in H1 – again, establishing an investor targeting framework from an early stage will imperative to success.
  The early bird…

- **Engage the marginal buyer.** More than ever, the tier of investors below the top 5 to 10 institutions are critical in setting the day-to-day share price and improving general liquidity. Large institutional crosses often contribute to neither. This often-forgotten tier incorporates smaller institutions, private wealth and family offices, many of which can become top 10 holders.
  Does this tier of capital need re-engaging after a focus on fundraising in 2020?

- **View ESG as a priority.** Companies fundamentally cannot escape this aspect of the equity story anymore. Once an appendix item, now increasingly front and centre. Nevertheless, the landscape is complex and there is still inconsistency between benchmarks, investor policies and priorities and company reporting. Radnor has recently strengthened its ESG advisory to help corporates demystify the ESG challenge as it evolves.
  Is your company ESG ready?

- **Remember, the onus is on you.** In today's world, corporates need to be proactive in their investor relations strategy. MiFID II and dwindling trading economics have made traditional investor engagement all but extinct from a broking perspective. It is therefore up to companies to ensure they have the right structure in place to maximise their position on the capital markets.
  Remember, investors will not come to you….

For inquiries please contact:

William Game
Director, Radnor Capital Partners
+44 (0) 203 897 1834

ENDS.