Radnor View

A client is for life, not just for ~~Christmas~~ deal season…

3rd August 2021

The word 'frothy' has been bandied around Radnor Towers for the best part of three months when describing the IPO market. Not something we would have expected as we entered the deep-freeze January lockdown. However, the brokers (and, on occasion, the bulgies) have been all hands-on deck earning their economics from these deals.

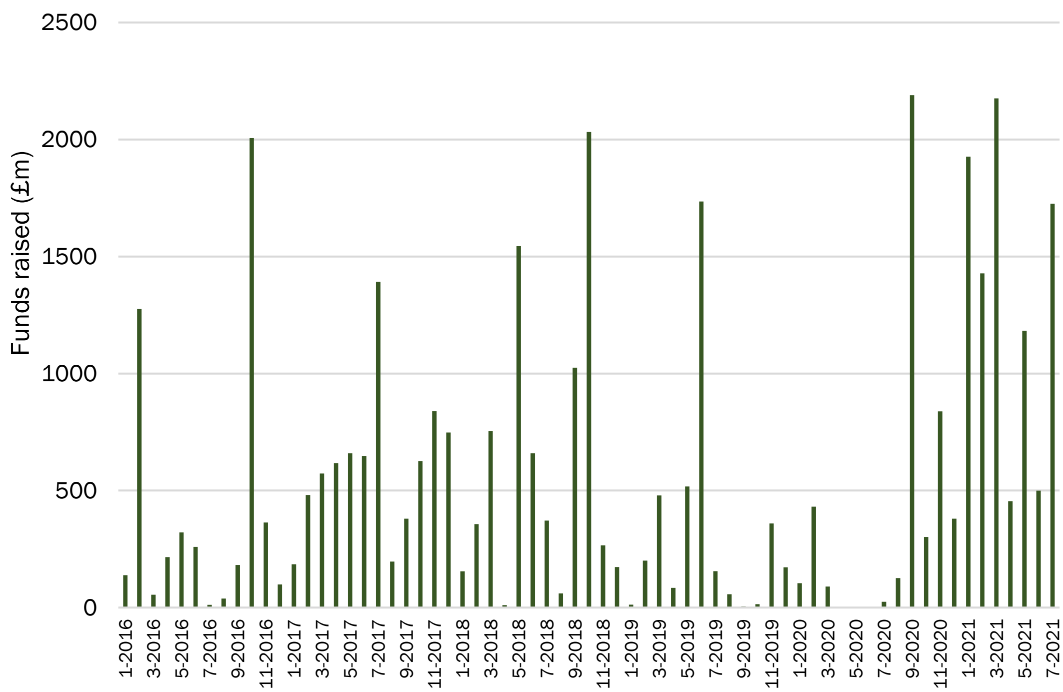
Have existing listed businesses with strong equity stories been unfairly overlooked at the expense of these shiny new toys?

This quarter's *Radnor View* takes a deeper dive into the numbers behind the new issue deluge of 2021, how this breaks down by sector and valuation and, importantly, what this means for existing corporates and their respective equity positioning.

Good times…but for how long?

Figure A below shows a marked increase in IPO funds raised since late 2020. The past six months has eclipsed any equivalent period over the past five and a half years. The total cheque size, paid for both new and existing shares (IPOs only), in **2021 has reached over £9bn already.**

Figure A – Total funds raised from IPOs* by month since January 2016



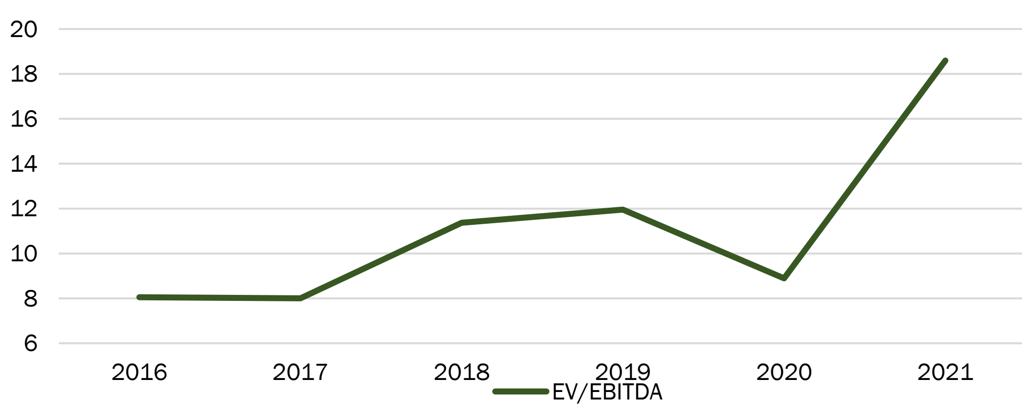
*Source: London Stock Exchange, *includes proceeds from new and existing shares*

IPO valuation premia?

'Frothy' is really the only way to describe some of the deals witnessed and new companies that have successfully landed on PLC shores since February.

Figures B and *C* below perhaps best encapsulate the extent to which valuations have run away as the 'recovery' from 2020 lockdowns has ensued. Where possible, forward EBITDA and sales multiples have been calculated and averaged from IPOs over the past five years. It should also be noted that any wildly large data points have been excluded (data only includes multiples <40x EBTIDA, <10x sales).

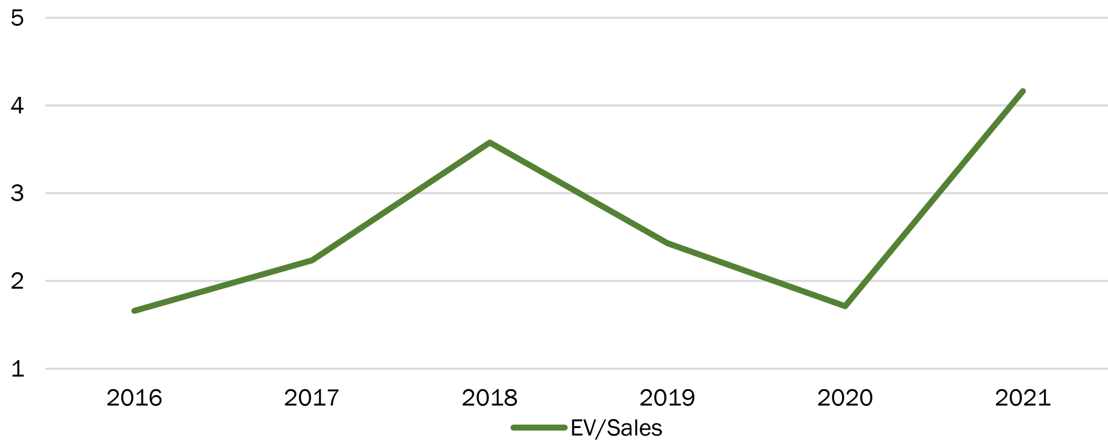
Figure B – Average EV/EBITDA



Source: Factset, Note: includes companies where forecast data was available at IPO; excludes negative valuations and multiples >40x

Figure B. For those companies where valuations can be extrapolated, the average EV/EBITDA multiple is now c.19x. This compares to the last high point in 2019 of c.12x and over double the average of 2016 and 2017 that witnessed average multiples of 8x.

Figure C - Average EV/Sales



Source: Factset, Note: includes companies where forecast data was available at IPO; excludes negative valuations and multiples >10x

Figure C. Similarly, average EV/Sales has ticked up strongly over the past 12 months, with the average over 4x in 2021. By comparison, 2016 and 2017 saw average multiples around 2x, implying a doubling in price when measured versus the top line.

The data for both EV/EBITDA and EV/Sales show striking similarities. **In short, companies coming to market are significantly 'more expensive' than has been the case in recent years.**

New year, new sectors

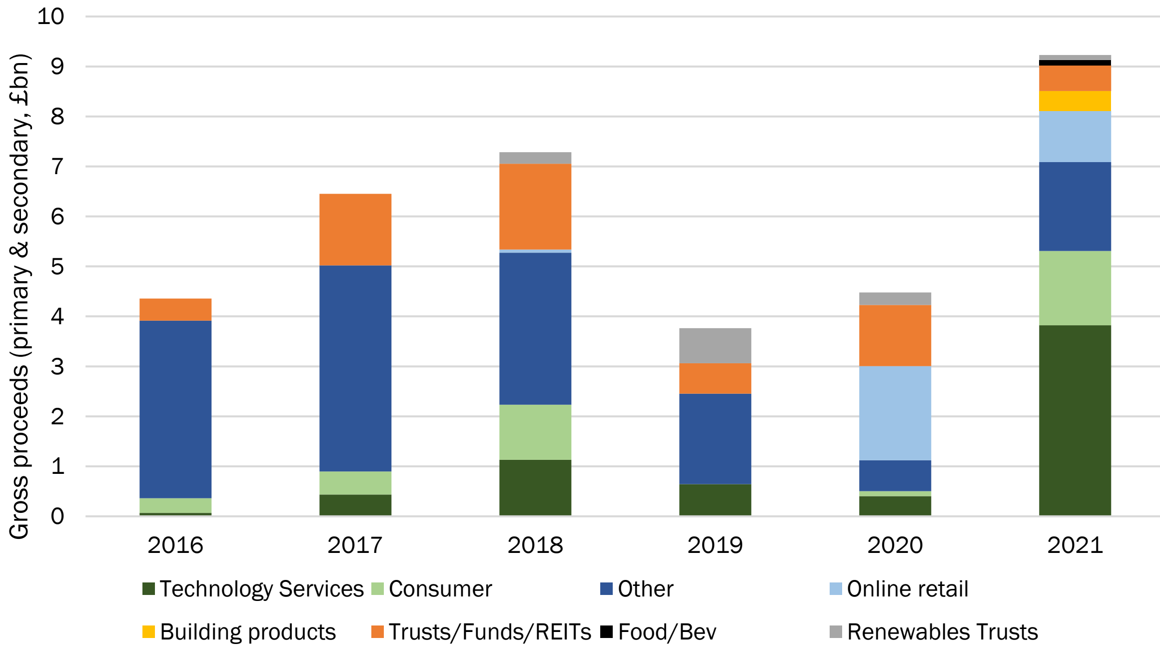
Unsurprisingly, the sector mix has changed substantially relative to previous years. *Figure D* below shows how IPO funds have been allocated by sector since 2016. The three most noticeable differences are:

- **Technology Services**, which includes higher growth 'new tech' businesses has raised nearly £4bn since late 2020, more than double the total for the previous four years;

- **Online Retail** has also taken advantage of a forced shift in consumer expenditure, with over £1bn raised through IPOs;

- **Building Products** companies have played a far greater role than in any other of the previous five years, with c.£500m of funds raised in 2021. Supported by government incentives, an acceleration in new housebuilding and commercial construction, building products suppliers have enjoyed renewed demand from investors.

Figure D - IPO Sector breakdown by year



Source: Factset, Radnor Capital, Note: Other comprises a range of other sectors

Top of the market?

It is worth noting that the 'Other' category includes the recent c.£800m for Bridgepoint, the largest listing of a UK private equity firm in a number of decades. Clearly a hit, opening 28% up on its first day of trading. However, **there is an underlying irony insomuch as the very company that seeks to list (often highly leveraged) companies when the market is hot now feels the backdrop is sufficiently attractive to list itself….**

Standing out in today's new world

Recent market volatility has reminded us that we are still in the midst of a global pandemic, while well-documented inflation is now threatening to spoil the benefits of top line growth over the medium term, as many 'traditional' sectors enter a cyclical recovery.

Moreover, with fund managers likely to be suffering deal fatigue and finding themselves low on deployable capital?, thus unable to support new issues, how will support for listed equities and respective valuations be affected as we progress through H2? Remember, a corporate client is for life…

Radnor works closely with its corporate clients on exactly these considerations. Equity story is a very important aspect that enables companies to not just stand out from their peers but also the wider market. We view the following as key areas of focus to ensure differentiation:

- **Move away from explaining shorter term market dynamics** and towards longer term ambitions. Send investors on that three-to-five year 'journey'.

- Effectively communicate the **core strengths of the business.** It is surprising how often companies fail to do this. Stand back and ask where the catalysts of the investment case lie;

- **Focus on your business, not your share price (nor anyone else's).** This may feel counterintuitive and difficult to enact. However, the share price and rating of the stock will optimise itself, so long as the strategy is clearly communicated, forecasts consistently delivered and the equity story is well-understood.

- **Maximise the ESG opportunity**, both from a messaging and commercial perspective. Investors are placing more emphasis than ever on 'responsible business', and this focus is only increasing;

- **Engage all relevant investors**. There is a (significant) market beyond your top 5-10 shareholders. However, corporates need to be proactive in their investor relations strategy to reach this universe. Investors will not come to you…

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ENDS.