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# 2019 AUSTRALIAN IPO REVIEW: 2020 PREDICTIONS

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## EARLY OPTIMISM AND MOMENTUM, BUT WILL THERE BE A BACK HALF BIAS?

We have seen calendar year 2020 start with a burst of energy from potential issuers and financial advisers for IPOs with proposed listing dates in the first half of 2020. This includes a continuation of foreign entities interested in listing on ASX, in particular from the United States and New Zealand. This momentum has continued and is a welcome start given that the IPO window tends to benefit from broad market confidence to open and remain open. It will be interesting to see the impact of what may continue to be a complex macro environment as a result of Brexit, the COVID -19 virus, bushfires and floods, and whether this will cause some deals to pause as parties draw breath. Given the breadth of industries for potential IPO candidates, we are cautiously optimistic that the bias to the latter part of the calendar year that has been evident over the last few years will not continue.

## IT TAKES TIME

We expect that IPO candidates will need to spend more time in 2020 than in previous years on pre-IPO and non-deal processes with an increased regulatory emphasis on education about their business and management, and readying their business before they are best positioned to begin the formal IPO process. Throughout the second half of 2019 we have seen that IPO candidates that have given brokers and institutions an opportunity to become familiar with them, their management and to see their operations and growth record (rather than just be told about it in a prospectus), and possibly setbacks and responses to challenges have supported a successful IPO process. We are constantly told that institutions and fund managers like the long term access that they have to information and management in listed entities instead of IPO entities that can seemingly appear from the blue, and that this is one of the reasons that institutions can be wary about IPOs. Longer term engagement well before an IPO may allow some entities the opportunity to demonstrate the appropriate track record and instil confidence ahead of an IPO process. We expect that this trend will continue in 2020 and leading into 2021.

## IT WILL PAY TO BE READY

Timing the market is hard, however, as we have said before it pays to be ready so that if the opportunity arises, the issuer and its advisers are able to launch the IPO process. This state of readiness is consistent with the point made directly above - an entity that is behaving and engaging like a listed company, at least in relation to corporate governance, stakeholder information and financial reporting will have an opportunity to build the underlying relationships with brokers and institutions and give them confidence in the entity pre-IPO. If the IPO opportunity arises, these entities will be ready to take advantage of the opportunity.

## PRE-IPO ROUNDS WILL CONTINUE TO BE POPULAR AND MAYBE AN ALTERNATIVE

With the ever present potential for market volatility, IPO entities wanting to demonstrate sufficient maturity of their business to maximise value and demand, and IPO investors seeking a longer period of engagement before deciding whether to invest in an IPO, we expect that pre-IPO capital raisings (relatively closer to an IPO than was traditionally the case) and whether of shares or convertible notes, will continue to be popular and will provide issuers with a further period to establish their business and prove to external investors that their business is ready to IPO. IPO readiness and behaving like a listed entity will support these processes and the transition into an IPO. It will be interesting to see whether crowd funding will become a standard step in pre-IPO funding for smaller entities.

## 2020 WILL REMAIN A REGULATOR’S MARKET

ASIC and ASX both foreshadowed a tougher regulatory stance in 2019 and we consider that they generally delivered, through the revision of the Listing Rules and interaction with IPO candidates and review of prospectuses. We expect this regulatory trend to continue in 2020. The lessons learned from the Financial Services Royal Commission, subsequent regulatory enforcement actions and an increased regulatory focus on compliance and willingness to take a tough stance in interactions with regulated entities will increase potential IPO investors’ focus on the regulatory status, corporate governance and risk processes of IPO candidates. We are generally supportive of tough regulation in the IPO market, provided that the regulators seek purposeful engagement with IPO entities to ensure better disclosure for investors. As was the case in 2019, we expect that earlier and more detailed interactions will be needed with ASIC and ASX, and IPO candidates should expect more information requests and scrutiny from regulators.

## CONTINUATION OF THE TECH WAVE

We expect that the IPO market will continue to be dominated by technology companies – albeit with a greater level of discernment about whether the issuer really is a technology entity that deserves an appropriate technology multiple and valuation rather than a more traditional business that has been repositioned. We expect the market to more quickly make this distinction and to be disciplined in not applying technology entity valuations to entities that are not truly technology entities. Amongst this technology wave, we expect that well run traditional businesses will continue to attract interest, for example, property entities and value adding manufacturers.

## PLACEMENTS AND SPPS WILL OUTSHINE RIGHTS ISSUES

While not strictly an IPO prediction, we expect that Australia's capital markets will continue to trend towards placements and share purchase plans (**SPPs**) over rights issues. Placements have always been fast and simple to execute, often with tighter pricing and lower market risk. Now with the higher $30,000 cap on SPPs introduced in August 2019, this structure can be almost pro-rata across existing institutions participating in the placement, while still having some potential for new institutional investors to participate, and pro-rata or more for many retail investors through the SPP. A Board's previous considerations about fairness to their retail shareholders may be resolved through the use of the SPP rather than a rights issue.

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# KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.

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