



2019 AUSTRALIAN IPO REVIEW: SOME KEY THEMES

28 February 2020 | Australia
Legal Briefings - By **Philippa Stone**



2019 in review

Market conditions in 2019 were impacted by events such as the elections in Australia and the UK and an overlay of uncertainty influenced by the ongoing trade war between the US and China, protests in Hong Kong and the commencement of the US presidential election process.

Despite this, outside Australia, in 2019 the theme seemed to be bigger is better, with several tech sector unicorn floats in the US and the largest of them all, the float of Saudi oil company Aramco on the Tadawul stock exchange.

2019 was a more subdued year for Australian IPOs. Nonetheless there were some standout listings with Prospa successfully listing after postponing its float in the prior year, large IT sector listings of foreign based Life360 and Fineos, the listing of eftpos solutions provider Tyro Payments and real estate sector listings of Home Consortium and Primewest.



Consumer focus

The regulatory focus on consumer protection continues, with ASIC having released guidance on how it proposes to exercise its new product intervention powers as well as the product design and distribution regime, which will be relevant to some IPOs where a Product Disclosure Statement is required (among other limited situations) and also to IPO companies in the financial sector whose businesses may be affected.



Road rules

A number of regulatory and governance updates were released in 2019 that sought to address the modern discourse around culture and climate change.

In particular, ASX released the updated Corporate Governance Principles and Recommendations (the Fourth Edition) which will take effect for a listed entity's first full financial year commencing on or after 1 January 2020. The key change reflected in the Fourth Edition is a shift towards recognising the importance of monitoring and taking responsibility for culture, conduct and behaviour within the corporate group and for focussed management of, and disclosure in relation to, non-financial risks, including ESG risks, in addition to the traditional focus on financial risks and performance. These new recommendations are directed to setting “the tone from the top” and ensuring that the entity’s board is provided with the information it needs to monitor the culture of the organisation.

ASIC has also been active, having updated its guidance on prospectus disclosure to include climate change as a type of risk which may need disclosure. ASIC's guidance suggests that such disclosure may be required both in relation to physical risks resulting from climate change and the extensive policy, legal, technology and market changes that transitioning to a lower-carbon economy may entail. ASIC has advised that in the coming year, it will conduct surveillance of climate change related disclosure practices by selected listed companies.

The ASX also released the final version of its listing rules reforms, which came into effect on 1 December 2019. These make important changes, including to related party rules affecting capital raisings and other corporate transactions. See [2019 Australian IPO Review: regulatory developments](#) for further details of the regulatory developments affecting IPOs in 2019.



The IT factor

With its opportunities for scalability and to create new industries, the IT sector remains firmly in focus for growth investors. Consumer focussed unicorns Uber, Lyft, Peloton and Pinterest listed in the US in 2019.

In Australia, IT sector listings focussed on business-to-business solutions with Software as a service (SaaS) and payment systems and platforms making up the bulk of the IT listings on the ASX. See further detail on the IT listings on the ASX in 2019 in [2019 Australian IPO Review: IPOs by the numbers](#).

Whereas in the US there seems to be a trend towards delaying the listing of IT companies until they reach stratospheric valuations, the ASX has consolidated its reputation as a home for early stage IT sector listings by launching the new S&P/ASX All Technology Index.

Whether in Australia, the US or elsewhere, we are also seeing investors being (rightly) discerning about companies that seek to style themselves as tech companies, but whose revenues are actually generated from models which are comparatively less scalable with lower margins. Market commentators criticised the office space rental company WeWork as an example of this.



Navigating the IPO process

We saw greater scrutiny and media interest in bookbuild messages in 2019 following the release of ASIC's report on allocations in equity raising transactions in December 2018, culminating in rolling media articles on the bookbuild messages of the Latitude Financial float, which was ultimately withdrawn. This scrutiny, combined with the adjustment to often not including formal valuation ranges in pre-deal research, has contributed to a heightened focus on agility during the marketing and bookbuild phases.



The search for yield

REIT raisings were a bright spot in an otherwise subdued market last year (see [2019 Australian IPO Review: REIT IPOs - the answer for you?](#)) and this is expected to continue given their yield characteristics and consequent attraction in the current low interest rate environment. Other yield based raisings, such as the Virgin Australia retail notes offer (upsized from A\$150 million to A\$325 million), were successful for similar reasons and this trend may continue, with no change in the interest rate environment in sight.



The road ahead

2020 is off to a promising start, with significant IPOs proposed in a range of sectors, including real estate, retail, resources, infrastructure and financial services. Whilst many of the themes discussed above that shaped 2019 are ongoing, we are seeing that clients have strategic objectives and compelling reasons to IPO in 2020. Others are seeing an IPO as one of a range of options including trade sales or other M&A activity. The inevitable twists and turns ahead require issuers and lead managers to be responsive and ready to take advantage of opportunities for launch when they arise. See [2019 Australian IPO Review: 2020 predictions](#) for our predictions for the remainder of 2020.

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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.



PHILIPPA STONE
PARTNER, SYDNEY

+61 2 9225 5303
philippa.stone@hsf.com

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