

REPORT: CONDITIONS RIPE FOR THE RETURN OF THE 'MEGA' IPO IN 2018

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Firm news

Prevailing conditions and a strong deal pipeline in 2018 could herald the return of the mega IPO in Australia, according to a new report from global law firm Herbert Smith Freehills.

The report, [New Horizons: The 2017 Australian IPO Review](#), reveals that although there was less market turbulence in 2017 and Australia experienced GDP growth, with commodities showing strong signs of resurgence, the GFC continued to cast a long shadow and Australian IPO activity was disappointing, particularly at the larger end of the spectrum.

[Philippa Stone](#), Herbert Smith Freehills partner and Global Co-Head of Capital Markets said: “2017 was the year of the ‘almost IPO’ in the larger listings space, with no corporate listings with a market cap of over A\$1 billion. The mid market also had a quiet year following a number of family and private equity backed partial exits in 2016.

“2018 could be the year to buck that trend, with positive conditions and several large IPOs already in the pipeline.

“The dearth of large listings in 2017 was not for a lack of candidates. A number of significant IPOs were explored but ultimately were either sold via trade sale or remain on the horizon.”

The Review revealed that there were a range of reasons for the withdrawal of some of the larger IPO prospects in 2017, including politics (Western Power), market conditions (Officeworks) and an opportunity to sell via trade sale (Alinta Energy and Origin Energy’s sale of Lattice Energy).

Overall the number of listings in 2017 was fairly consistent with 2016 (at more than 100) but raised less capital.

The smaller end of the market continued to shine in 2017, with the majority of listings on the ASX being for companies raising less than A\$50 million.

Companies in the financials sector raised by far the most capital last year, and represented the second most prevalent listing type in 2017 (behind the materials sector).

The materials sector, predominantly mid to small cap mining explorers, accounted for almost a third of all listings, generating around 7% of the capital raised by companies floating on the ASX in 2017.

Small cap IT listings were the third most common by sector, representing over a tenth of the IPOs on ASX in 2017.

Consistent with 2016, there were a host of foreign companies listing on the ASX. Approximately 20% of all 2017 ASX listings were of companies incorporated outside Australia, including companies from Canada, China, Germany, Israel, Singapore, the UK and the US. This reflects a push by ASX to attract high quality foreign issues to its market.

Looking ahead, Herbert Smith Freehills partner and Co-Head of Australian Equity Capital Markets, [Michael Ziegelaar](#) acknowledged that while the outlook for Australia's IPO market was positive, market conditions meant that other opportunities were also available to IPO candidates.

"Low debt financing costs and cashed up private equity houses will continue to provide attractive alternatives to IPOs. If businesses and PE houses are prepared to pay the right price for a target, as we saw last year with Alinta Energy's sale to Chow Tai Fook Enterprises, that could affect the IPO pipeline," he said.

"Also, for the first time in a while, economic conditions have become more volatile. While this may not impact well credentialed IPOs, it may require earlier preparation to enable issuers to be ready to launch at the right moment.

"However, the future looks bright. Recent large takeovers and block trades have resulted in more funds being available, which will free up institutional investment capital.

"From a sector perspective, technology, food, healthcare and mining services are likely to experience strong IPO activity in 2018.

"Along with some mega IPOs, we also expect to see more small IPOs in 2018 following success in this space last year."

Herbert Smith Freehills is recognised as Australia's leading law firm for IPOs by value, and we have acted on more IPOs by number since 1998 than any other top tier law firm (according to Connect 4). In 2017, we were ranked the number one equity capital markets team by deal value (Thomson Reuters).

Some of the Herbert Smith Freehills team's recent IPOs include advising:

- Netwealth Group Limited on its \$264 million IPO and listing with a market capitalisation of \$879 million
- New Energy Solar Fund on its \$205 million IPO and listing with a market capitalisation of \$489.5 million
- Moelis Australia Limited on its \$59 million IPO and listing with a market capitalisation of \$294 million

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