2020 AUSTRALIAN IPO REVIEW: KEY THEMES

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Guides – By **Philippa Stone**

2020 IN REVIEW

Market conditions in 2020 were of course impacted by the Covid-19 pandemic, but also by record low interest rates, expansionary fiscal policies put in place by governments across the world, the US elections and ongoing Sino-Australian and Sino-US trade tensions. With the disruption, volatility and uncertainty created by these conditions, unsurprisingly, the volume of capital raised from Australian IPOs in 2020 was at its lowest in recent years.

Despite this, the Australian IPO market demonstrated its resilience and ability to rebound quickly. The second half of the year experienced a strong upturn of IPO activity in Australia and we understand that this trend was a global phenomenon. To put the volume of activity in perspective, the second half of 2020 saw more than five times the number of IPOs in Australia than the first half of 2020. See our article "IPOs by the numbers" for further details on the IPO market in Australia in 2020.

The second half listings for 2020 saw IPOs of businesses across a range of sectors and included IPOs for flagship assets like Dalrymple Bay Infrastructure, which listed with a market capitalisation of A$1.286 billion, online book seller Booktopia Group Limited which listed with a market capitalisation of A$315.8 million and Silk Laser Australia, which listed with a market capitalisation of A$162.5 million. Herbert Smith Freehills acted for the issuer in each of these IPOs. We also acted for Australian Unity Limited on the first issue and listing of mutual capital instruments as a debt security on ASX in December 2020 to raise approximately A$100 million. See page 17 for further detail on this new instrument.

REGULATORY CONSIDERATIONS IN A TIME OF COVID-19

In contrast to previous years, regulatory activity in the IPO space has been somewhat subdued, with ASIC and ASX focusing their attention on regulating secondary raisings in the context of Covid-19.

For IPO issuers, Covid-19 has impacted their ability to forecast their financial performance and caused them to adopt varying approaches to the inclusion of financial forecasts in prospectuses (such as opting for a shorter than usual forecast period). In practice, this meant that IPO issuers often engaged with ASIC in relation to their proposed methodologies prior to the lodgement of the prospectus.

OTHER REGULATORY UPDATES

ASIC issued conditional class relief in relation to IPO communications and voluntary escrow arrangements, which is a welcome development that will reduce costs for issuers undertaking an IPO. ASIC also released its awaited regulatory guidance in relation to the new financial product design and distribution obligations regime, which should assist issuers, sellers and distributors of financial products to familiarise themselves with the new regime in anticipation of its commencement on 5 October 2021.

IPO candidates and their advisers have been adapting to ASX's listing rule reforms, which have been in effect for just over a year. ASX has also updated its guidance in relation to performance securities, mutual capital instruments and co-operative capital units. IPOs and pre-IPO restructuring going forward will also be affected by significant changes to the foreign investment review regime which were enacted in December 2020 (with effect from 1 January 2021). See our accompanying article, "Regulatory developments" for further details of the regulatory developments affecting IPOs in 2020.

HEALTH TECH FOCUS

The number of IPOs in the healthcare sector grew in 2020 and the 2020 cohort was comprised of a number of entities focused on health tech solutions. This may be a continuation of the focus we saw in 2019 but it could also be influenced by the accelerated growth and demand in health tech in response to the Covid-19 pandemic.

Examples of Australian health tech IPOs in 2020 include Cleanspace Holdings (which designs, manufactures and produces respiratory protection equipment used in industrial and healthcare sectors), Doctor Care Anywhere Group (which delivers a range of telehealth services), and Control Bionics (which designs, manufactures and sells wireless wearable electromyography based augmentative and alternative technology).

The pandemic has accelerated the demand for health tech and improved delivery of healthcare services and it is now more widely accepted that digital health will become a mainstream part of the modern healthcare system. We expect to see more IPOs in this and adjacent sectors in 2021 and the coming years.

THE NEW NORMAL

The unprecedented circumstances of 2020 exposed a number of inefficiencies with traditional IPO processes and accelerated the adoption and integration of technology as the “new normal”.

For example, due to the travel restrictions imposed in response to the Covid-19 pandemic, a majority of IPO roadshows were conducted virtually. The key benefits of virtual roadshows were demonstrated to include reduced travel time and cost involved in the roadshow process and the ability for IPO issuers to reach a wider pool of potential investors as they were no longer constrained by time and cost considerations around physical roadshows. The shorter timeframe in which a roadshow can be conducted also serves to potentially reduce the IPO issuer’s exposure to market volatility. Whilst it is unlikely that roadshows will be entirely digital in the future, we expect to see a greater shift towards a hybrid approach, tailored to suit the needs and circumstances of the individual IPO issuer.

Further examples of the integration of technology in the IPO process include the shift towards submitting listing applications to regulators online through special purpose portals, which makes it easier for stakeholders to provide required information and monitor the status of their submissions, and the more widespread adoption of prospectus verification software, which streamlines this traditionally time-consuming and logistically challenging, yet vital, part of the IPO process.

There will inevitably be further logistical and technological issues to navigate, but we are seeing a practical approach being taken and welcome the adoption of the “new normal” to enhance efficiency in the IPO process.

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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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