

AUSTRALIAN IPO ACTIVITY FOR THE FIRST HALF OF 2020

# IPO WATCH AUSTRALIA MID-YEAR REPORT

JULY 2020



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# FOREWORD

## New ASX listings fall during 2020



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The number of IPOs in the first half of 2020 fell considerably in comparison to previous years. This was against the backdrop of a volatile period for the ASX overall. There have only been 12 new listings this year which is in marked contrast to 2019 which saw 23 new listings in the first half of the year and the five-year average of 34 listings.

The total amounts raised from new offerings also fell significantly. Only \$132 million was raised over this period compared to \$823 million raised over the same period in 2019 and \$2.5 billion raised in the first six months of 2018. This was primarily due to the lack of large cap IPOs with only one new listing, Atomo Diagnostics Limited (ASX: AT1), that had a market capitalisation greater than \$100 million upon listing.

Whilst the first half of the year historically experiences lower volumes of listings, it would appear that the COVID-19 pandemic had a significant impact on the IPO market. There were multiple listings which were subsequently withdrawn during the period amidst difficult market conditions. Market uncertainty and share price volatility do not generally provide a listing-friendly environment given the significant costs involved in undertaking an IPO. There were only three listings in the June quarter which raised a combined total of \$44.5 million. These difficult market conditions are also reflected in the upcoming pipeline of activity with only one new listing noted at the end of June 2020.

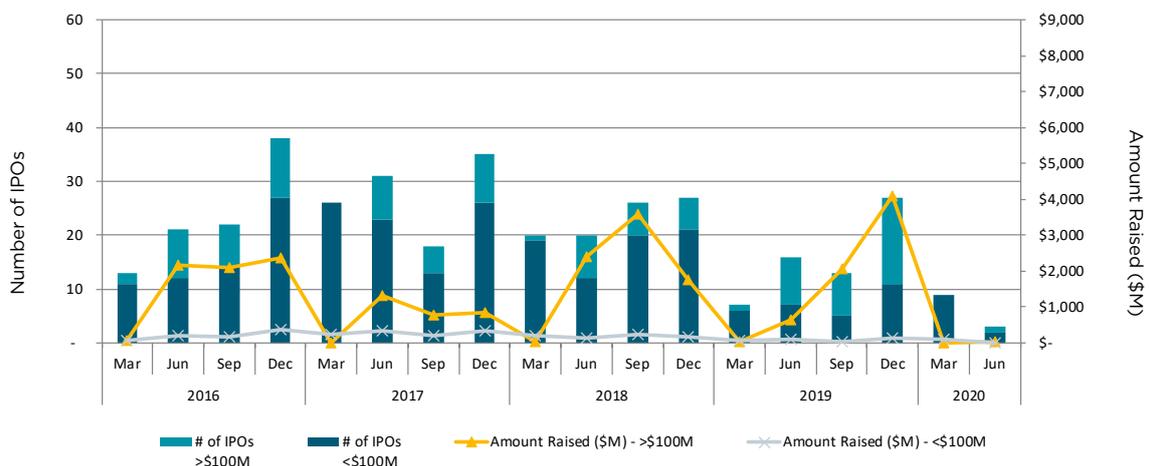
Those listings which did occur were predominantly from the small cap sector (less than \$100 million market capitalisation at listing). Interestingly, small cap listings remained consistent with the previous period with 11 new entrants. There was only one new large cap IPO during the period which raised \$30 million. This was significantly less than the previous period where there were 10 new large cap listings raising a combined total of \$663 million.

Unsurprisingly, there was a lack of diversification across industry sectors. Whilst materials and technology companies are often strong contributors to small cap volumes in more buoyant years, the first half of 2020 was very subdued. The Materials sector contributed only three new listings for the period. The first half of 2019 also only had three listings which at the time was a significant drop when compared to 2018 where there were 16 new listings. Software & Services also experienced a lack of activity with only two new listings.

The volatility present in the market was reflected in the share price performance for IPOs during the period. The average first day gain over listing price from all new entrants was 19% and the average gain by the end of June was 16%. Seven new entrants recorded first day gains and five companies recorded a gain over listing price for the half year period. In terms of share price growth post listing, this was significantly down from the 63% average gain noted in 2019 which was heavily impacted by a market rebound in the first quarter.

In terms of subscription levels, 75% of the new listings were able to meet their target raising on average 96% of the total subscription funds sought (considering both over and under subscriptions).

**IPO ACTIVITY BY QUARTER**



## SECTOR ANALYSIS

### Significant lack of sector diversity

Industry	All Listings				Small Cap Only			
	2020		2019		2020		2019	
	Number	Amount Raised (\$m)	Number	Amount Raised (\$m)	Number	Amount Raised (\$m)	Number	Amount Raised (\$m)
Automobiles & Components	-	-	-	-	-	-	-	-
Banks	-	-	-	-	-	-	-	-
Capital Goods	1	9	-	-	1	9	-	-
Commercial Services & Supplies	-	-	-	-	-	-	-	-
Commercial & Professional Services	-	-	-	-	-	-	-	-
Consumer Services	-	-	2	95	-	-	1	20
Diversified Financials	-	-	4	204	-	-	1	15
Energy	-	-	2	16	-	-	2	16
Food & Staples Retailing	-	-	1	5	-	-	1	5
Food, Beverage & Tobacco	1	13	-	-	1	13	-	-
Health Care Equipment & Services	3	42	2	56	2	12	1	21
Household & Personal Products	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-
Materials	3	34	3	16	3	34	3	16
Media	-	-	-	-	-	-	-	-
Pharmaceuticals, Biotechnology & Life Sciences	2	18	1	20	2	18	-	-
Real Estate	-	-	2	132	-	-	1	30
Retailing	-	-	1	13	-	-	1	13
Semiconductors & Semiconductor Equipment	-	-	-	-	-	-	-	-
Software & Services	2	16	4	254	2	16	1	12
Technology Hardware & Equipment	-	-	-	-	-	-	-	-
Telecommunication Services	-	-	1	13	-	-	1	13
Transportation	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-
<b>Total</b>	<b>12</b>	<b>132</b>	<b>23</b>	<b>823</b>	<b>11</b>	<b>102</b>	<b>13</b>	<b>161</b>

The reduced volume of listings has unsurprisingly had a negative impact on the overall spread of new IPOs across different sectors. Only six sectors were represented and, of these, only four sectors had multiple listings. This compares to the first half of 2019 which saw 11 industry sectors represented.

The Materials and Health Care Equipment & Services sectors together comprised half of all new listings for the six-month period. Of the Materials listings, two new entrants hold gold projects against the backdrop of the strong gold price during the period, with the other listing relating to copper. Materials listings ended the period with an average 2% gain across these new entrants.

Overall, the Health Care Equipment & Services sector raised the most funds for the period at \$41.5 million. The only large cap raising during the period was in this sector, contributing to this result. In comparison to the Materials sector these listings performed more strongly from a share price perspective, with an average 42% first day gain extending to a 17% average gain across the period. This is a continuation of the strong performance for this sector in 2019 where new listings enjoyed an average year end gain of 64%.

There were two other sectors which recorded multiple listings. The Pharmaceuticals, Biotechnology & Life

Sciences sector had two listings which recorded an average loss by period end of 17%. The Software & Services listings in contrast performed better with this sector including the best performing new listing for the period. Cosol Limited (ASX: COS) recorded a first day gain of 90% increasing further to record an impressive year end gain of 198% in comparison to listing price.

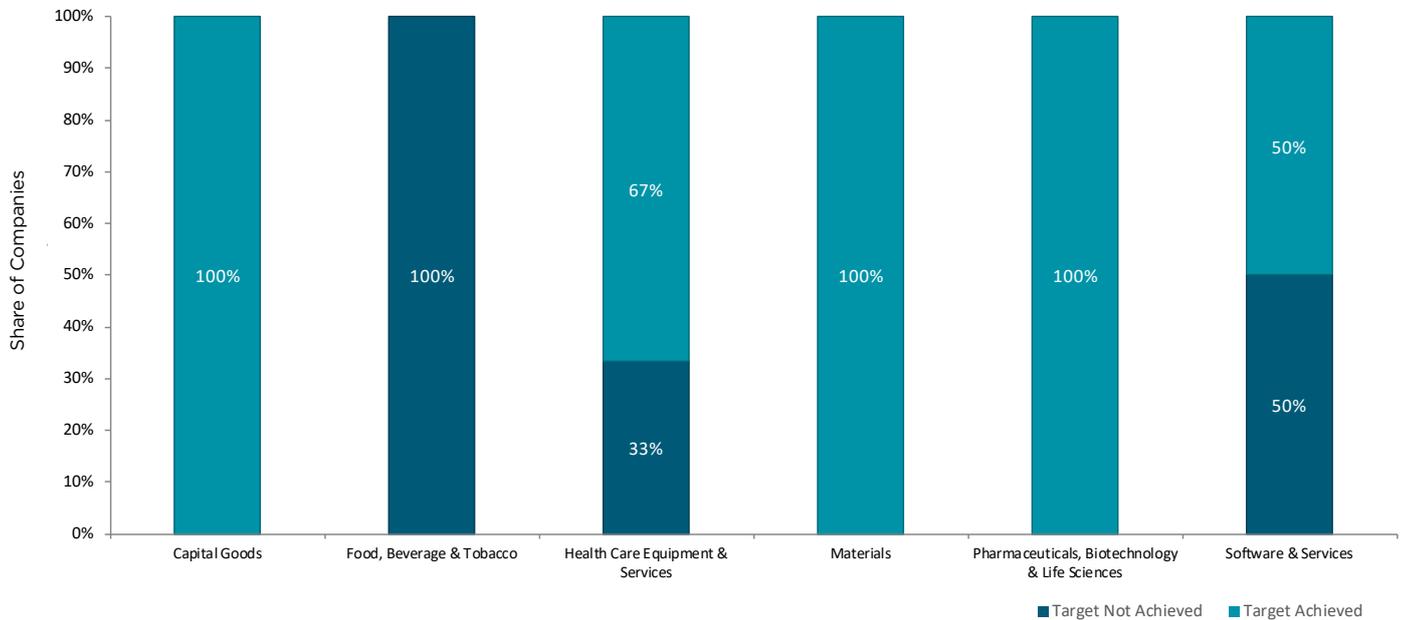
On average, all listings recorded a first day gain of 19% and an average period end gain of 16%. Strong individual performers, in addition to Cosol Limited, included Atomo Diagnostics Limited (ASX: AT1, 70% gain) and Intelicare Holdings Limited (ASX: ICR, 58% gain).

It is also noteworthy that there were two new listings in the medicinal cannabis market. Little Green Pharma Ltd (ASX: LGP) is a medical cannabis producer, while Emerald Clinics Limited (ASX: EMD) operates a network of medical clinics that specialise in safe cannabinoid treatment. 2020 has also seen two foreign listings during the period, being US registered Nyrada Inc (ASX: NYR) and Happy Valley Nutrition Limited (ASX: HVM) which is registered in New Zealand.

# IPO SUBSCRIPTION RATES

Subscription levels steady for new entrants

## PERCENTAGE OF COMPANIES ACHIEVING TARGETS BY SECTOR



Despite the slowdown in the IPO market, many of the new entrants were successful in meeting their capital raising targets. A total of nine new listings (75%) met their subscription targets compared to 83% in the first six months of 2019 and 74% in 2018. The sole large cap listing which occurred during the period also met its subscription target.

There was a marked reduction in the average amount of funds sought, with companies seeking to raise \$11.5m on average compared to \$98.7 million in 2019 reflecting the nature of the market in the current period. There were also several proposed IPOs that were subsequently withdrawn on the back of current conditions.

There were three listings that did not meet their target. All listings were small caps looking to raise \$15 million or less and with a market capitalisation lower than \$50 million. These listings also had a relatively weak market performance with an average first day

loss of 10% worsening to an average period end loss of 29%.

In contrast, those listings which did make their subscription target recorded an average first day gain of 29% and a period end gain of 30%.

Within the small cap sector, the market capitalisation range which was able to raise the greatest amount of funds on average was the \$25-50 million bracket (\$10.60 million raised on average) and these listings accounted for 50% of all small cap listings during the period. It is noteworthy that only one of the small cap sector listings had a market cap at listing greater than \$50 million.

Of interest, there was a relatively low number of underwritten IPOs during the period with only 17% of listings being underwritten. This compares to 39% of all listings in the same period in 2019.

## PERCENTAGE OF SUBSCRIPTION TARGET ACHIEVED<sup>1</sup>



<sup>1</sup> Based on the funds target being the midpoint of any allotment range (some companies do not have a range). This means actual fundraising can exceed "targeted" fundraising (i.e. oversubscription).

<sup>2</sup> No listings occurred within this Market Capitalisation range.

# ASX MARKET PERFORMANCE

A mixed performance from new listings

## HISTORIC PERFORMANCE - ALL ORDINARIES AND IPOS

	All Ordinaries Index	Average First Day Gain/Loss <sup>1</sup>	Average Period End Gain/Loss <sup>1</sup>
6 Months 2020	-12%	19%	16%
Year end December 2019	19%	24%	35%
Year end December 2018	-7%	10%	-18%
Year end December 2017	8%	23%	63%
Year end December 2016	7%	16%	39%

<sup>1</sup>Average gain/loss for all new IPOs listing in the respective period.

There was a significant correction in the market during the half year period with the impact of COVID-19. The ASX All Ordinaries Index reached 7,255 on the 20th February and by 23rd March had fallen by 37% to a low of 4,564. The market has not experienced a correction of similar magnitude since the falls experienced during the GFC.

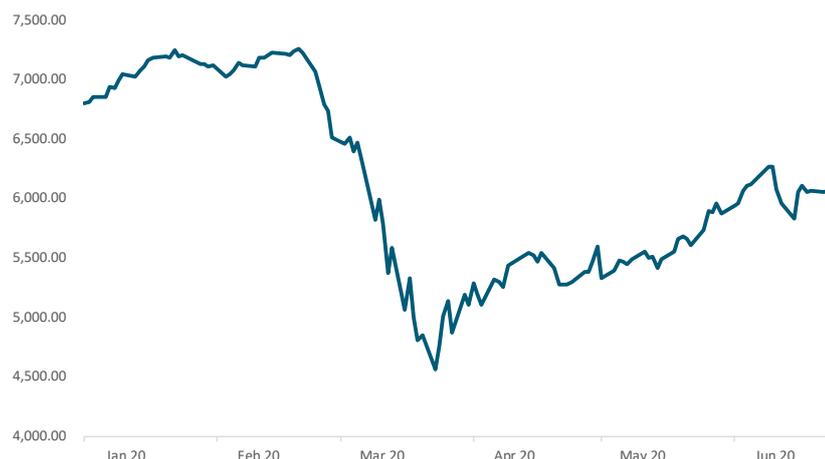
Since this market low, the Index has rebounded to close the period at 6,001. Although a challenging risk environment would appear to be present for some time, the significant falls in value from the peak of the market have perhaps represented opportunities from a buyer perspective which has helped support the recovery in the broader market.

This market recovery has unfortunately not correlated with an increase in IPOs with the near term pipeline at historical lows. The degree to which there is a recovery in the pipeline will be heavily influenced by broader macro concerns and ongoing risk associated with the pandemic. It will be interesting to see the extent of any recovery in the IPO market prior to 2021.

In terms of the performance of those companies which were able to successfully list, the average gain of 16% compares favourably with the overall 12% loss recorded on the wider market. Some companies appeared to be impacted by the timing of when they came to market relative to movements in the wider ASX. However, with 33% of the new listings recording a gain of 35% or more by period end, the IPO market did provide some opportunities for investors in a difficult market.

Amidst the COVID-19 pandemic, the near term horizon is difficult to predict due to the significant uncertainties involved. As uncertainty is generally a factor which negatively impacts IPO volumes as well as the broader market, the appetite for new listings is likely to remain challenging in the near term.

## ALL ORDINARIES (SIX-MONTH PRICE HISTORY)



“The average gain of 16% compares favourably with the overall 12% loss recorded on the wider market.”

## THE ROAD AHEAD

The new listings pipeline remains weak with only a single proposed listing at the end of June 2020. This is reflective of the near term impact of COVID-19 as well as challenging macroeconomic factors and movements in risk sentiment.

The proposed listing for Manuka Resources Ltd (ASX: MKR) is seeking to raise \$7 million. The general public offer has been closed and the company has announced a significant level of support from the market. This company operates in the Materials sector, with a gold and silver project in the Cobar Basin in New South Wales.

Several IPOs which were registered as upcoming floats towards the end of the period subsequently withdrew their proposed listings. There may be potential for these listings to return to market once the environment becomes more favorable.

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HLB Mann Judd firms offer a comprehensive range of professional services to listed clients and companies pursuing an IPO. In addition to acting as corporate advisers, investigating accountants, and tax and accounting advisers, we have extensive experience in assisting clients in their preparation for an IPO and in evaluating the benefits and feasibility of an IPO against alternative strategic options.

Our assistance to companies pursuing an IPO typically includes:

- Investigating accountant's reports on historical and forecast financial information
- Independent expert's reports
- Analysis and advice on feasibility and alternatives to an IPO
- Pre-IPO diagnostic review
- Corporate and structuring advice
- Financial and taxation due diligence
- Valuations
- Company and shareholder tax advice and planning
- Accounting advice.



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