Quiet Q3 due to pushed float plans to avoid any post election volatility
### UK IPO highlights
#### 3Q15 YTD
(January–September 2015)

#### Volume and value

<table>
<thead>
<tr>
<th>Market</th>
<th>Deals</th>
<th>Capital Raised</th>
<th>Change vs. 3Q14 YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>London Main Market</td>
<td>20</td>
<td>GBP£4.8b</td>
<td>(56% decrease)</td>
</tr>
<tr>
<td>London AIM</td>
<td>23</td>
<td>GBP£0.5b</td>
<td>(78% decrease)</td>
</tr>
</tbody>
</table>

#### Key trends

- There were no withdrawals or postponements announced this quarter, and the majority of planned IPOs took place, indicating confidence despite turbulence in global markets.
- The dual-track process is becoming increasingly significant as companies weigh their options for raising funds.
- Newly listed stocks in London have remained strong, currently trading on average 19% above list price, paving the way for a stronger fourth quarter in which IPOs will hold their own against other strategic growth options.

#### Commentary

“3Q15 was quiet following the UK general election and an absence of financial sponsor-backed IPOs. Despite the volatility caused in large part by turbulence in the Asian markets, newly listed stocks on the London Main Market have remained strong, currently trading on average at 19% above list price. We anticipate that steadying markets and strong after-market performance will reignite financial sponsor participation and that technology, media/entertainment and financial sectors will be the most active sectors; albeit investor appetite is yet to be tested.”

Scott McCubbin
EY UK and Ireland IPO Leader

#### Financial sponsors drive UK IPO market

- PE and VC accounted for 35% of UK IPOs (15 deals)
- 74% of UK IPOs (GBP£3.9b)

#### Three sectors trending

- **Consumer products**
  - GBP£0.9b
  - (10 deals)

- **Technology**
  - GBP£0.5b
  - (6 deals)

- **Industrials**
  - GBP£2.4b
  - (5 deals)

#### IPO pricing and performance

- **London Main Market**
  - +8.5% first-day average return
  - +22.5% increase in offer price vs. 30 September
  - GBP£279.3m median current market cap

- **Alternative Investment Market**
  - +6.3% first-day average return
  - +21.6% increase in offer price vs. 30 September
  - GBP£47.2m median current market cap

#### Cross-border activity in 3Q15 YTD

- **Ireland** had 2 deals raising GBP£526m on London Main Market and AIM.
- **Hungary** had 1 deal raising GBP£309m on the London Main Market.
- **Egypt** had 1 deal raising GBP£219m on London Main Market.

#### Top three IPOs in 3Q15 YTD by capital raised

- **Auto Trader Group plc** raised GBP£1.6b (UK, media)
- **Cairn Homes plc** raised GBP£434m (Ireland, Industrials)
- **Sophos Group plc** raised GBP£405m (UK, technology)

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1. 3Q15 YTD (January-September 2015) IPO activity is based on priced IPOs as of 30 September.
2. Pricing and performance is based on 19 IPOs on London Main Market and 23 IPOs on AIM that have started trading by 30 September. Data as of 1 October.
3. Year-to-date returns of equity indices as of 30 September.
4. There were 15 cross-border IPOs on London Main and AIM in 3Q15 YTD. The other deals include two IPOs each from China and the US, as well as one IPO each from Jersey, Barbados, Malaysia, Israel, Myanmar, Cyprus and Australia.
Market overview

An expectedly quiet Q3 as companies had pushed float plans to Q4 to avoid any potential election volatility

The number of IPOs during the third quarter of this year fell dramatically as many businesses decided to hold back on their IPO preparations pending the outcome of the General Election.

This decision to put their float plans on ice meant that those businesses were unable to react quickly enough and fast track plans when the surprise election result came through, resulting in low levels of IPO activity.

There were only 6 IPOs in Q3 – 2 main market and 4 AIM – raising £194mn versus 19 IPOs raising £1.5bn in the same period last year and 22 IPOs and £3.4bn raised in Q2. Overall companies that listed on the Main Market during the period performed well, with their shares trading on average at 35% above offer price. However AIM fared worse with stock on average being -10% below offer price.

Overall newly listed stock on both markets in 2015 YTD is trading on average 19% above offer price.

Main market – 2 floats raised £149mn in Q3, one each in the technology and travel sectors.

AIM – 4 AIM admissions raised £45mn in Q3, of which the most interesting was the floatation of Vietnamese software company MySQUAR Limited

Global IPO activity declined 31% by volume in 3Q15 and proceeds dropped by 74% quarter-on-quarter (or 58% lower if we exclude the US$25.0b IPO of Alibaba Group Holding Ltd. in September 2015).

This decrease in activity is principally caused by volatility in Asian markets, the devaluation of the Chinese yuan and the suspension of IPO activity on Mainland China exchanges since early July weighed on deal volumes, particularly for larger deals.

However, IPO activity on US and EMEIA exchanges in 3Q15 was also markedly slower compared to 3Q14.
## Market listings

### New Issues – Main market

<table>
<thead>
<tr>
<th>Date of admission</th>
<th>Company</th>
<th>PE backed</th>
<th>Country of incorporation</th>
<th>Region/s of domicile</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-Jul-15</td>
<td>Kainos Software Ltd</td>
<td>N</td>
<td>UK</td>
<td>UK</td>
<td>Software</td>
</tr>
<tr>
<td>22-Sep-15</td>
<td>On The Beach Group plc</td>
<td>Y</td>
<td>UK</td>
<td>UK</td>
<td>Travel</td>
</tr>
</tbody>
</table>

### New Issues – AIM

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>01-Jul-15</td>
<td>Orchard Funding Group plc</td>
<td>N</td>
<td>UK</td>
<td>UK</td>
<td>Financial Services</td>
</tr>
<tr>
<td>01-Jul-15</td>
<td>MySQUAR Ltd</td>
<td>N</td>
<td>Vietnam</td>
<td>South East Asia</td>
<td>Software</td>
</tr>
<tr>
<td>03-Jul-15</td>
<td>K&amp;C REIT plc</td>
<td>N</td>
<td>UK</td>
<td>UK</td>
<td>Real Estate</td>
</tr>
<tr>
<td>11-Aug-15</td>
<td>Gloo Networks plc</td>
<td>N</td>
<td>UK</td>
<td>UK</td>
<td>Media</td>
</tr>
</tbody>
</table>

### What constitutes an IPO?

- Not all new admissions, as listed by the London Stock Exchange, are defined as IPOs for the purposes of the commentary throughout this report. Our definition excludes secondaries, re-admissions, investment funds, transfers from AIM to Main (and vice-versa) and introductions where no money is being raised, or shares placed with new investors.
## IPO Eye
An overview of the London Stock Exchange listings in Q3 2015

### New Issues — Main market

<table>
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<tr>
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<th>Company</th>
<th>PE backed</th>
<th>Country of incorporation</th>
<th>Region/s of domicile</th>
<th>Sector</th>
<th>Market cap. on admission (£mn)</th>
<th>Funds raised (£mn)</th>
<th>Placing price (p)</th>
<th>Closing price (after first day of trading)</th>
<th>Closing price (at QTR end)</th>
<th>% change in price</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-Jul-15</td>
<td>Kainos Software Ltd</td>
<td>Y</td>
<td>UK</td>
<td>UK</td>
<td>Software</td>
<td>161</td>
<td>53</td>
<td>139</td>
<td>174</td>
<td>210</td>
<td>51%</td>
</tr>
<tr>
<td>22-Sep-15</td>
<td>On The Beach Group plc</td>
<td>Y</td>
<td>UK</td>
<td>UK</td>
<td>Travel</td>
<td>240</td>
<td>96</td>
<td>184</td>
<td>205</td>
<td>218</td>
<td>19%</td>
</tr>
</tbody>
</table>

### New Issues — AIM

<table>
<thead>
<tr>
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<td>UK</td>
<td>Financial Services</td>
<td>21</td>
<td>10.0</td>
<td>96</td>
<td>97</td>
<td>100</td>
<td>4%</td>
</tr>
<tr>
<td>01-Jul-15</td>
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<td>N</td>
<td>Vietnam</td>
<td>South East Asia</td>
<td>Software</td>
<td>19</td>
<td>1.6</td>
<td>10.00</td>
<td>10</td>
<td>6</td>
<td>-40%</td>
</tr>
<tr>
<td>03-Jul-15</td>
<td>K&amp;C REIT plc</td>
<td>N</td>
<td>UK</td>
<td>UK</td>
<td>Real Estate</td>
<td>4</td>
<td>3.5</td>
<td>10.00</td>
<td>10</td>
<td>9</td>
<td>-10%</td>
</tr>
<tr>
<td>11-Aug-15</td>
<td>Gloo Networks plc</td>
<td>N</td>
<td>UK</td>
<td>UK</td>
<td>Media</td>
<td>31</td>
<td>30.0</td>
<td>120.00</td>
<td>125.00</td>
<td>126.00</td>
<td>5%</td>
</tr>
</tbody>
</table>
In this quarter

The low number of IPOs in Q3 was expected in light of the UK general election.

Businesses changed their plans to float in Q4 2015 and Q1/2 2016 in order to review the results of the election/political climate.

In the end the quarter produced the low number of 6 IPOs raising cumulative funds of £194mn but with clear indications that activity was focused on Q4 onwards.

Main market
We saw only 2 main market IPOs this quarter, with On The Beach Group plc being the only private equity backed business to list in Q3.

On the Beach, which specialises in short-haul beach holidays, placed 52.2 million shares at a price of 184 pence each. Shares in the company were up 20% in morning trade to 221.57 pence, and are currently trading at a healthy 217 pence. This follows a strong IPO year for its private equity backers, Inflexion, with On the Beach becoming its third flotation of the year to date, following on from the flotations of National Accident Helpline and IT services company FDM.

The other main market listing was IT services, consulting and software company Kainos Group plc, whose shares surged on their debut. Kainos shares have continued to rise and at the end of the quarter are up 51% to 210 pence, from the 139 pence at which they were floated. Kainos issued 37.7 million shares in the issue, raising GBP52.4 million and giving it a market capitalisation of GBP161.3 million at the start of dealings. Following the early share price surge, its market capitalisation is now around GBP249 million. This follows the successful flotation of technology business Sophos in Q2.

IPO Main market: historical performance
AIM

AIM also had a quiet quarter producing 4 IPOs raising £45m, less than a third of the funds raised in Q2.

As is typical of AIM the admissions covered a cross-spectrum of industry ranging from technology to real estate.

This quarter saw the floatation of Myanmar-focused mobile services company MySQUAR Ltd. MySQUAR raised GBP1.67 million with the placing of 16.8 million new shares at 10 pence each, giving the company a market capitalisation of GBP18.5 million on admission. Shares in the company were down 40% at 6 pence at the end of Q3.

This was followed on the same day by the floatation of Orchard Funding which operates in the insurance premium finance and professional fee funding market. It raised GBP10.0 million at a placing price of 96 pence per share, giving it a market capitalisation of GBP20.5 million on admission. Shares in Orchard were up 4% at 100 pence at the end of the quarter.

K&C REIT PLC the Central London-focused residential real estate investment trust made its debut during the quarter. The shares, which were issued at 10 pence each, were trading down 10% at 9 pence at the end of Q3. K&C was valued at GBP4.4 million by market capitalisation on joining AIM.

The last AIM flotation of Q3 was Media investment company Gloo Networks plc. Gloo raised GBP30 million through the placing of 25 million shares at a price of 120 pence per share, giving it a market capitalisation of GBP30.7 million on admission. Shares in the company were up 5% at 126 pence at the quarter’s end. It plans to use the proceeds of the fund-raising for working capital and to carry out due diligence on potential acquisition targets. The company is looking to acquire and operate ‘trusted consumer brands’ in the media sector, initially with an enterprise value in the range of GBP250 million and GBP1 billion.

Aftermarket performance

At quarter end, main market IPOs were trading at an impressive average of 35% above offering price and AIM admissions, are trading at an average 10% below list price. The average for AIM admissions is affected significantly by the performance of MySQUAR which is trading at over 40% below list price.

IPO AIM market: historical performance
Overall the IPO market has performed strongly in the aftermarket this quarter with the new Main Market flotations making significant gains.

The post issue trading performances of the 6 IPOs reflect the challenges facing issuers and investors in pricing new issues in the current market. Given the issues within the Asian markets, the drop in commodity prices and the ongoing volatility in capital markets, pricing is going to certain to be key to getting floats away.

**Volatility**

The FTSE indices had been on an upward track for the majority of 2015, peaking in early June. However the recent events in the Asian stock markets combined with the poor performance of commodities stock have had an impact causing all indices to drop considerably. As of 30 September, we are seeing a stabilisation of the indices take hold as the effects of the quarters collapse are halted and the markets look to build back investor confidence. The FTSE250, and FTSE AIM-all-share have been the quickest to respond to a returning confidence and are already back to above their early 2015 levels. However the ongoing volatility of Glencore’s stock value and the overall commodity market volatility, continues to hold the FTSE100 and FTSE all-share down.

**FTSE Indices - 2015**

Source: S&P Capital IQ
Despite the quiet Q3 and the recent market volatility we do expect Q4 2015 to show an improvement, but not to match the levels seen in 2014, or in the earlier Q1/Q2 2015 quarters. An additional factor is the number of IPOs that are currently in a ‘dual-track’ process and may go to sale before reaching ITF.

Overall investor appetite is probably still there for new issues, especially those in the technology, media/entertainment and financial sectors. We expect this to continue throughout Q4 with the potential for retail and construction confidence building into Q1 2016. Given the strong performance overall for newly listed shares, against the overall performance of the FTSE100, we expect investors to still be active in IPOs, although the knock on effect of the instability in the equity markets isn’t quite yet known. While we expect a better Q4 2015, it wouldn’t take much to subdue investor appetite is, so October could well be a critical month in determining how the quarter fares.

With only 1 IPO in Q3 being private equity backed we are expecting the Q4 IPOs to return to the same level of PE backed deals as in Q1 & Q2, as the market returns picks up following the Q3 downturn. PE backed deals are still expected to generate the majority of capital raised in Q4.

Overall we believe that the London market pipeline remains active, and following the announcements of Hastings Insurance, brick manufacturer Ibstock and the continuing possibility of Worldpay’s floatation, which would be the largest seen since 2012, Q4 could see a return of the IPO market to its 2013/14 levels of activity.
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Eirini Vogiatzi, evogiatzi@uk.ey.com
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