Sights set on an IPO?

2020 Vision and Beyond

Investec

Corporate & Investment Banking

Where are we in the IPO cycle?

Following a period of a very active IPO market, recent political turbulence has impacted investor sentiment

2016 – H1 2018

The wide open window

- Fuelled by low interest rates and buoyant equity markets, there continued to be a number of IPOs throughout the period, with 56 Small-Mid Cap Main Market and AIM IPOs in 2016, 72 in 2017 and 34 in H1 2018, raising an aggregate £15.74bn
- Whilst 2016 was impacted by political turbulence caused by both the EU referendum and Trump, 2017 proved a very strong year for IPOs as markets stabilised and investors sought to deploy cash built up during 2016
- The AIM market was particularly sheltered from wider market events, with 104 IPOs from 2016 to H1 2018, raising over £4bn

H2 2018

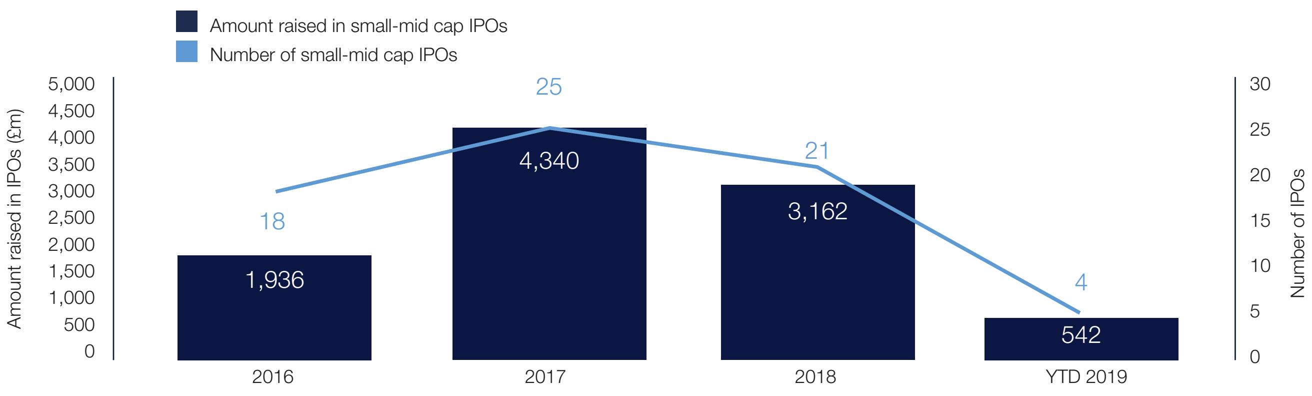
The wobble

- After a traditionally quiet Q3, Q4 2018 proved a tough market for Small-Mid Cap IPOs against a backdrop of significant market volatility
- Both Aston Martin and Funding Circle got to market, but at reduced valuations. Both then struggled in the aftermarket, colouring sentiment towards new issues
- A number of IPOs were postponed or cancelled during this period, citing poor equity market conditions

H1 2019

A cautious start to the year (but some green shoots)

- With continued uncertainty around the timing of Brexit, the market stopped to take a breath in Q1 2019, with only 5 IPOs across the whole UK market
- Q2 however saw some green shoots following the extension of the Brexit timetable, with 15 IPOs getting away, raising over £15bn, however many of these were not in the UK Small-Mid Cap space



Source: DealLogic, Investec analysis
Small-Mid Cap defined as IPOs with a market value of £100m - £1bn upon IPO (ex Funds)

Right on time: Investec helps Watches of Switzerland raise £242m in one of the most successful IPOs of 2019 so far

Transaction Overview

- The £242m IPO was priced towards the top of its price range at 270p, implying a market cap of £647m
- The company sees the IPO as a means of further enhancing its profile and brand recognition with its customers, suppliers and employees
- The company used the proceeds to reduce its leverage, in order to provide a more permanent capital structure and to access a wider range of capital-raising options
- Apollo Global Management monetised a portion of their stake in the Company, selling down £71m worth of shares and retaining a 56% shareholding

"Investec was able to use its extensive expertise and reach within the UK mid-market investor space to market the Watches of Switzerland IPO successfully, and to ensure that a diverse investor base bought into the strong investment case."

David Flin
Director, Corporate Broking

Stop press

- The IPO was multiple times oversubscribed at the offer price with quality long-only investors receiving allocations
- Watches of Switzerland has traded well since listing, rising 13.3% on its first day and currently up c.10% on its IPO price
- In September 2019, the company entered the FTSE 250

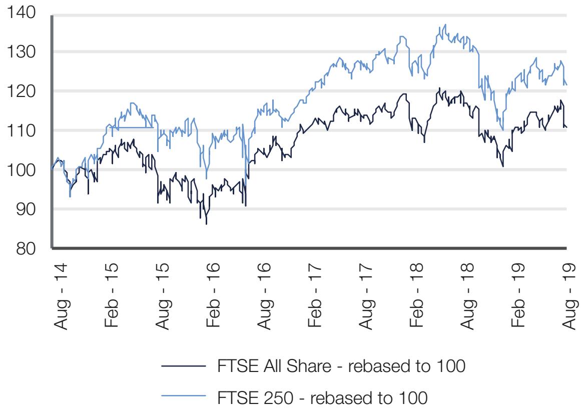
Good reasons to feel optimistic

Brexit headwinds will eventually alleviate and we see plenty of reasons to feel optimistic about the medium term IPO window

1

Equity markets are still trading well

- Despite overall political and economic uncertainty, equity markets have held up well
- Strong markets are important as they drive inflows back into equity markets
- Strong equity prices also help IPO valuations as investors primarily benchmark against the prevailing valuations of other listed peers



2

Fund managers are sitting on a lot of cash

- 2019 has seen the highest number of public-to-private transactions for over 10 years
- This puts cash back into the pockets of investors which they need to re-deploy

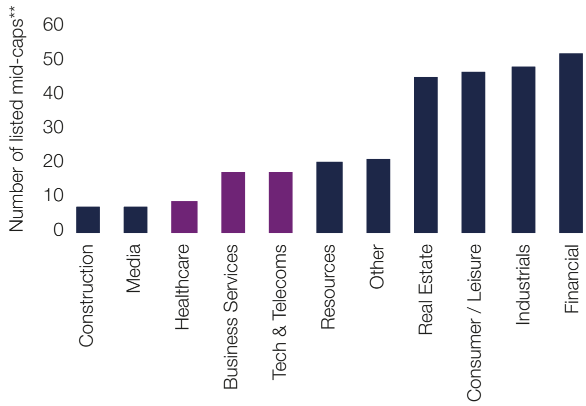
£3.7bn invested in small-mid cap IPOs since 2018

£13.7bn cash returned to shareholders through all-cash takeovers since 2018*

3

A number of key sectors remain under-represented on the public markets

- Healthcare, Business Services and Technology have historically been under-represented in the UK Small-Mid Cap sector
- Fund managers actively seek exposure to key growth sectors



4

IPOs are a key source of alpha

- Fund managers are constantly on the look-out for alpha in order to maximise the returns of their portfolio
- IPOs have time and time again proved key drivers of alpha and fund managers will continue to seek to back good companies as a means of driving fund performance

α

* Announced takeovers with an offer value of between £100m - £2bn
** Main Market listed PLCs with market cap between £100m-£2bn

Just the tonic: Investec advises Fever-Tree on its AIM IPO, raising £93m

Transaction Overview

- Fever-Tree is the world's leading supplier of premium carbonated mixers
- The company successfully listed on AIM in November 2014, raising £93m (£4m of which was for the company; the remainder raised for selling shareholders)
- At the issue price of 134p, the Company had a market cap of £154.4m
- The IPO helped position the company for its next stage of development, including raising its public profile and providing it with a platform for future growth
- The IPO also provided a partial realisation for existing shareholders including LDC, which owned over 50% of the company prior to IPO

"There was a level of scepticism at first about a 'mixer' IPO but once investors had met the company, and done a taste test they really got it and understood the growth potential in premiumising the luxury mixer space. Since IPO the company has delivered an amazing growth story and taken EBITDA from £10m in 2014 to an expected £86m in 2019 and now capitalised at £2.8bn."

Adam Bidwell
Head of Small-Mid Cap Equity Sales

Stop press

- Fever-Tree has proved to be a darling of the AIM Market
- Since IPO, Investec has raised over £300m for the company's pre-IPO shareholders and has helped further institutionalise and internationalise the company's share register
- In 2014 Fever-Tree reported revenue of £14.9m and adjusted EBITDA of c.£4.3m. 4 years later, the company reported revenue of £237.4m and adjusted EBITDA of £78.6m
- Today, the company has a market cap. of c.£2.8bn and has seen its share price increase by over 1,000%, driven by consistent out-performance against expectations

Am I a good IPO candidate?

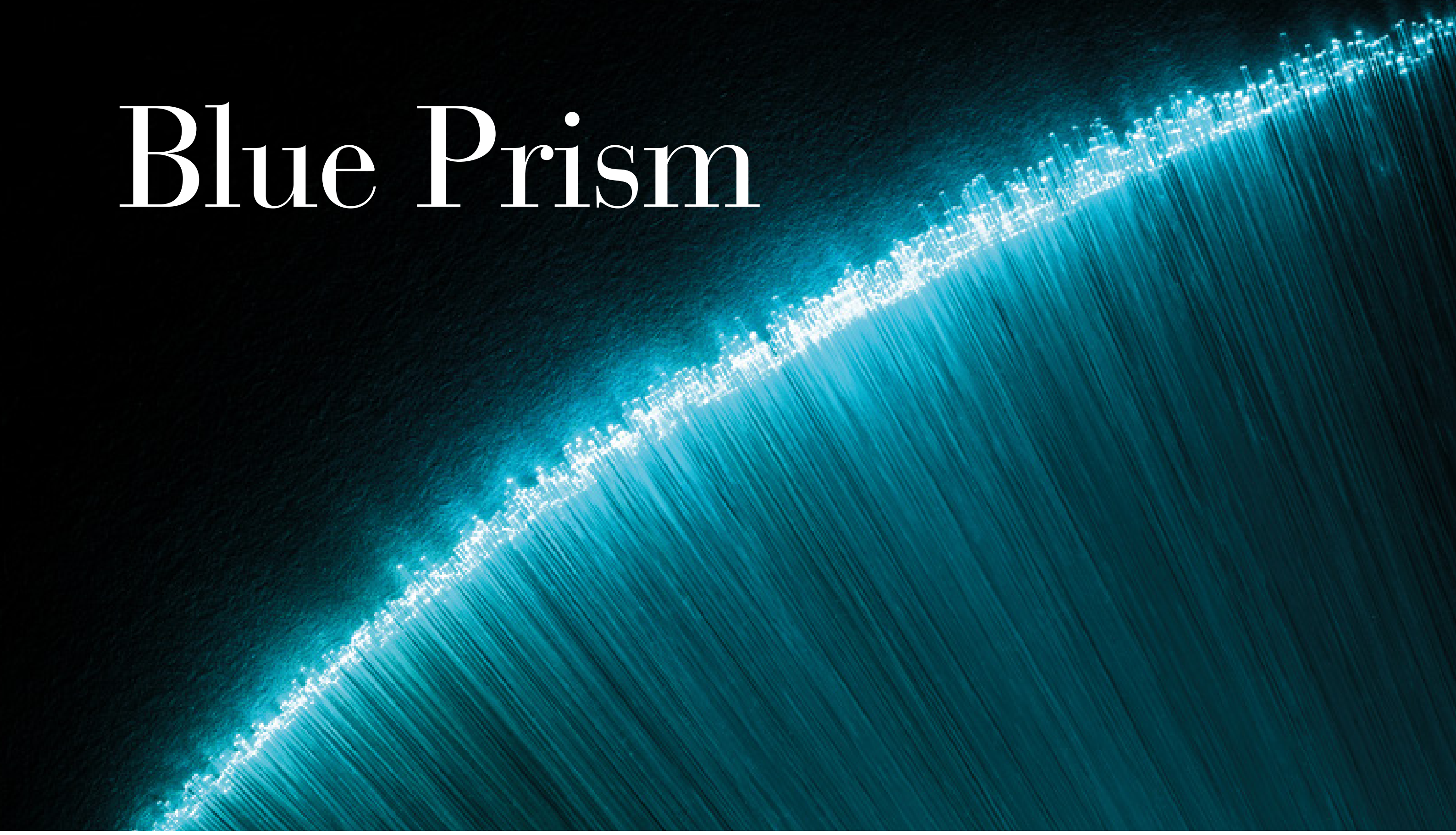
Our straightforward, tried and tested approach to assessing possible IPO candidates

The Four M's	Typical attributes:
Market	Attractive underlying market dynamics which support the organic growth and present future growth opportunities.
Model	Differentiated, defensible and scalable proposition with leading position.
Management	Strong track record of executing the plan and delivering growth in the sector. The management being backed at the IPO would have delivered the historic growth and be able to stand behind the plan going forward.
Metrics	Strong organic revenue growth, good revenue visibility, attractive margins and cash generation.

Investec has worked with all of its prospective IPO candidates to get under the skin of the business and properly assess the equity case against these criteria.

We rely on our sector knowledge, and understanding of what public market investors look for, to optimise the positioning of the investment case.

Blue Prism



Rise of the robots: Investec advises Blue Prism on its AIM IPO

Transaction Overview

- In March 2016 Blue Prism launched its IPO onto AIM, raising £10m at 78p per share
- To capitalise on the increasing interest in the Robotic Process Automation market, Blue Prism needed to invest to accelerate its organic growth opportunities
- The £10m raised at IPO was specifically to invest into building a scalable sales and delivery channel partner infrastructure to allow for rapid expansion
- At the time of the IPO, 60% of Blue Prism's customers were through or with partners. Following IPO this increased rapidly to 100% showcasing the success of its programme

> "Today, the company is valued in excess of £700m, up from a value of £50m when we completed the IPO back in 2016. What really impressed us from the start was the level of sophistication Blue Prism took in its approach to its channel partner programme."

Sebastian Lawrence
Director, TMT, Investment Banking

Stop press

- In 2016 Blue Prism was an early stage technology company with approximately £6m turnover; today, the company is valued in excess of £700m
- Blue Prism's share price has increased by >1000% since IPO
- Since IPO, Investec has helped Blue Prism raise second and third rounds of funding: £40m in January 2018 and £100m in January 2019 – to facilitate further growth and international expansion

The key to a successful IPO

Four simple steps to maximise the prospects of a successful IPO

Be prepared

An IPO is a highly intensive process for a CEO and CFO. The more that can be done upfront, the easier the process will be.

Preparation of a three year integrated business plan and model, adopting ‘PLC’ standard financial procedures and making any required additions to the second tier management and finance team will all help to ensure the process proceeds as smoothly as possible.

Early and regular engagement with investors…

A ‘fan base’ of investors needs to be curated via the process of Test Marketing and subsequent interaction.

This helps to ensure the equity story is properly understood, any areas of concern are addressed, and provides increased deal certainty for issuers. A fan base will help to create competitive tension amongst institutions to maximise value and to pick up momentum investors.

Telling the story right

Time needs to be spent with your adviser so that the equity story can be carefully constructed in order to maximise the impact with investors. This includes both the presentation content, but also, just as importantly, how management present it.

We spend a significant amount of time with management teams preparing the story and rehearsing the presentation until it becomes second nature.

Getting a strong board assembled early

Good corporate governance is becoming increasingly important for investors, and key to this is an experienced and balanced Board.

A strong Board also acts as a good source of stewardship for management teams who are new to public company life.

Boards cannot be parachuted in at the last minute and it can take time to assemble the right people. We always advise that this is a work stream that is kicked off on ‘Day 1’.

Hollywood Bowl

Strike!: Investec advises Hollywood Bowl on its Main Market IPO, raising £181m

Transaction Overview

- Hollywood Bowl is the UK's market leading ten-pin bowling operator
- The company successfully listed on the Main Market of the LSE in September 2016 with a market value of £240m
- £181m was raised by Investec at IPO for existing shareholders, having previously been owned by Electra Private Equity
- As well as providing a partial realisation for existing shareholders, the IPO enhanced the company's public profile and status with customers, investors, landlords, developers and business partners

> "Investec helped Hollywood Bowl navigate the EU Referendum timetable successfully to deliver the first IPO following the vote. Since the IPO, the management team has outperformed expectations to deliver capital growth and attractive shareholder returns."

David Flin
Director, Corporate Broking

Stop press

- Since IPO, the company has grown revenue and EBITDA by c.40% and 76%, respectively
- Over the same period, the company's share price has increased by over 40% since IPO and the company has returned over £30m to shareholders by way of dividends (>12.5% of the market cap. at IPO)
- Investec has also helped further institutionalise the company's share register since IPO and helped Electra exit their residual holding in the company
- At the time, the IPO represented the largest UK fundraise and IPO following the EU referendum in June 2016

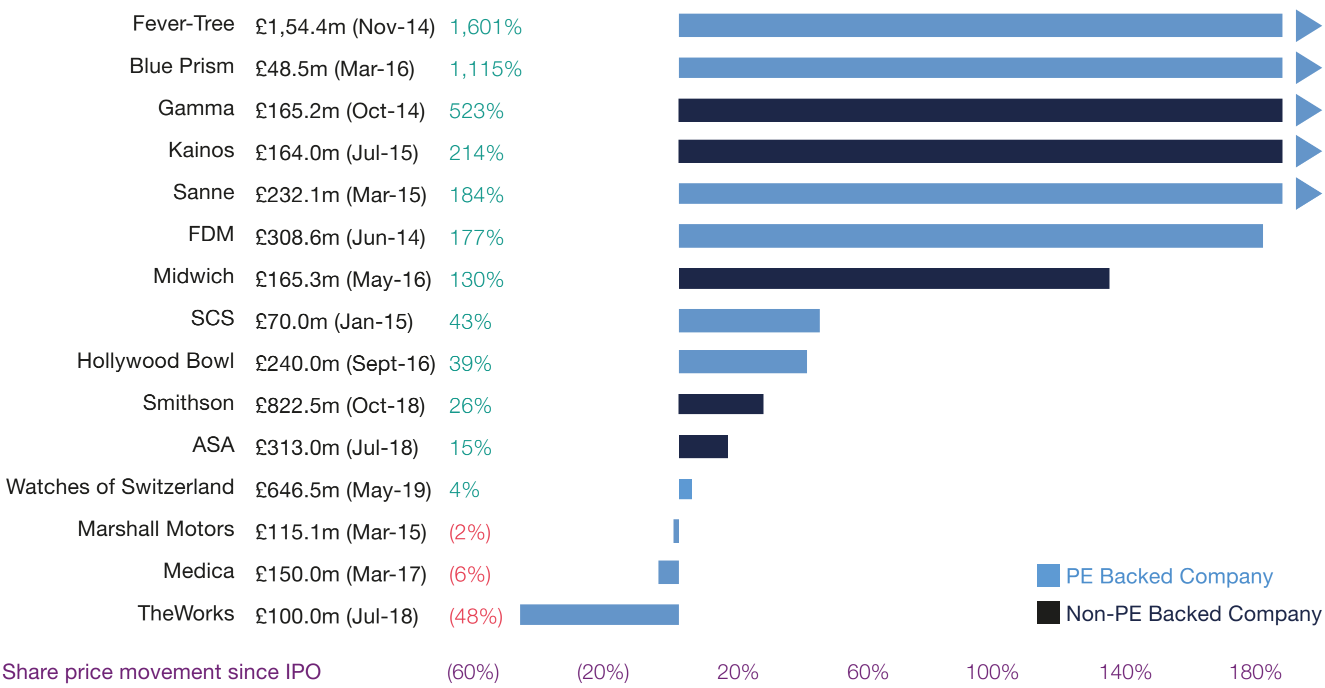
Our track record speaks for itself…

Investec has advised on some of the most successful Small-Mid Cap IPOs in recent years

A track record of successful IPOs…

£647m Main Market IPO	£822m Main Market IPO	£313m Main Market IPO	£100m Main Market IPO	£150m Main Market IPO
Joint Bookrunner	Sole Sponsor, Bookrunner, and Broker	Joint Bookrunner	Sole Bookrunner, Financial Adviser and Broker	Sole Bookrunner, Sponsor and Broker
May 2019	October 2018	July 2018	July 2018	March 2017
£240m Main Market IPO	£165 AIM IPO	£50m AIM IPO	£161m Main Market IPO	£115m AIM IPO
Sole Bookrunner, Financial Adviser and Broker	NOMAD, Sole Broker and Bookrunner	NOMAD, Sole Broker and Bookrunner	Sole Bookrunner, Sponsor and Broker	NOMAD Sole Bookrunner and Broker
September 2016	May 2016	March 2016	July 2015	March 2015
£232 Main Market IPO	£35m Main Market IPO	£93m AIM IPO	£83m AIM IPO	£309m Main Market IPO
Sole Bookrunner, Sponsor and Broker	Sole Bookrunner, Sponsor and Broker	NOMAD, Sole Bookrunner and Broker	Sole Bookrunner, NOMAD and Broker	Sole Bookrunner, Financial Adviser and Broker
March 2015	January 2015	November 2014	October 2014	June 2014

Which have performed strongly once on the market…



Source: FactSet
Post IPO share prices as at 13 September 2019

We have a leading IPO platform

Top ranked and highly experienced

Highly-rated analysts who will understand and sell your story
to **UK small & mid-cap** investors…

Our research team cover **17 sectors**

7 analysts are ranked within **Top 3** for their respective sectors

Majority of the analysts are ranked within the **Top 5**

A selection of our research analysts' rankings:

EXTEL	EXTEL	EXTEL	EXTEL	EXTEL
1st	2nd	2nd	2nd	3rd
Technology Research	Capital Goods Research	Consumer Research	Insurance	Healthcare Research
UK Survey 2019	UK Survey 2019	UK Survey 2019	UK Survey 2019	UK Survey 2019

Top ranked sales team who speak to the key **UK small & mid-cap** investors...

3 UK salespeople ranked in the top 6 (including #1 & #2)

Highly relevant post MiFID II; distribution to **400+** institutional clients

Adam Bidwell

James Bishop

Polly Wilson

Sources: Extel 2019

Kainos

Driving the digital revolution: Investec advises Kainos on raising £52m on its Main Market IPO

Transaction Overview

- In July 2015, Kainos, a high growth UK-based provider of IT Services, consulting and software solutions joined the London market by way of a main market IPO
- On IPO, Kainos had a market capitalisation of £164m and raised £52.4m at 139p per share for selling shareholders including Queens University, Belfast, former employees and a number of senior managers and employees
- Investec acted as sole sponsor, financial adviser, bookrunner and broker to Kainos and continue to act for them today

> "Since Investec helped bring Kainos to market the Company has continued its rapid growth trajectory and for good reason is recognised as one of Northern Ireland's premier companies. Kainos is revolutionising the way in which the world works, combining innovation and digitalisation to positively impact people's lives."

Patrick Robb
Co-Head, Corporate Broking

Stop press

- In the year ended March 2015, the Group generated revenues of £60.8m and profit before tax of £11.8m. In the four years since IPO, Kainos continued to grow strongly and in the year ended March 2019 had revenues of £151m and profits before tax of £23.1m
- Kainos became a constituent of the FTSE250 in 2019 and has a market capitalisation of c.£520m and staff numbers have more than doubled
- Kainos is one of the few main market LSE companies based in Belfast

FAQs

Straight answers to common questions

Q. Is there a minimum size a company needs to be in order to IPO?

Whilst size and liquidity (the percentage of a company's shares sold to incoming investors) can influence the level of interest from different types of investors, companies with proven business models, strong market positions and superior growth prospects should be regarded as attractive investment opportunities by public market investors. It is the job of your adviser to identify the right group of target investors for each IPO, although generally the larger the company, the larger the universe of potential investors.

Q. How do public market investors typically value IPOs?

Most IPOs are principally valued on a multiple of forecast earnings – typically profit after tax – although other metrics such as EBITDA, free cash flow and dividend yield are considered. Public market investors will benchmark an IPO against the multiples of the most relevant listed peer group companies. Therefore the construction of a relevant and credible peer group is fundamental to supporting the correct IPO valuation. Where there are no directly comparable listed peers, investors will consider other listed companies with similar business models or financial characteristics such as margins and earnings growth. For early stage or high growth businesses, a longer term view of future profitability will be appropriate, together with a discounted cash flow analysis.

Q. How much money can I take off the table at IPO?

There are no technical restrictions on individual existing shareholders selling down at IPO. Existing institutional shareholders are typically able to sell a significant proportion of their shareholding at IPO but can also decide to retain a material shareholding subject to avoiding the perception of an overhang which can weigh on the post-IPO share price. Maintaining a stake allows the investor to benefit from the upside of future positive share price. Management shareholders can expect to sell a proportion (e.g. 30-50%) of their shareholding at IPO but would typically be expected to retain a majority of their shareholding to ensure appropriate alignment with incoming investors. Each case will be assessed on the individual's circumstance.

Q. How do I realise the value of shares following an IPO?

Having sold shares at IPO, management shareholders would be expected to retain their remaining shares for a suitable period, typically at least two to three years, before any further material sales. Investors pay close attention to management selling shares as a read across to the prospects for the business but are pragmatic and recognise that wealth diversification is a valid reason for share sales. However, investors will expect management to retain suitable value in the business going forward. There is much more scope for existing institutional shareholders to exit their investment in a controlled manner following the expiry of the lock-up undertakings, subject to market demand.

Q. What is the optimal capital structure to come to the market with?

Public market investors expect IPOs to come to market with an appropriate capital structure which facilitates the delivery of their business plan and builds in suitable headroom. The majority of UK Small-Mid Cap companies have bank facilities with leverage and investors expect appropriate headroom against such covenants, particularly for new issuers. Investors usually prefer IPOs to come to market with more conservative leverage levels than existing listed companies, to reflect the lack of track record as a public company.

Q. How long after a substantial acquisition do we need to wait until we can IPO?

There is no uniform answer to this. However, as a general principle, public market investors will not want to bear any integration risk from previous acquisitions. The larger the acquisition, the more the company will need to demonstrate to investors that the acquisition has been successfully integrated. Valuation benefits of acquisitions will be captured in the forecast numbers (including synergies).

We'd love to hear about your IPO ambitions

Jonathan Arrowsmith
Head of Advisory
jonathan.arrowsmith@investec.co.uk
+44 (0)20 7597 4025

Ed Thomas
Director, Investment Banking
edward.thomas@investec.co.uk
+44 (0) 20 7597 5109