

# Investec Market Review

December 2022

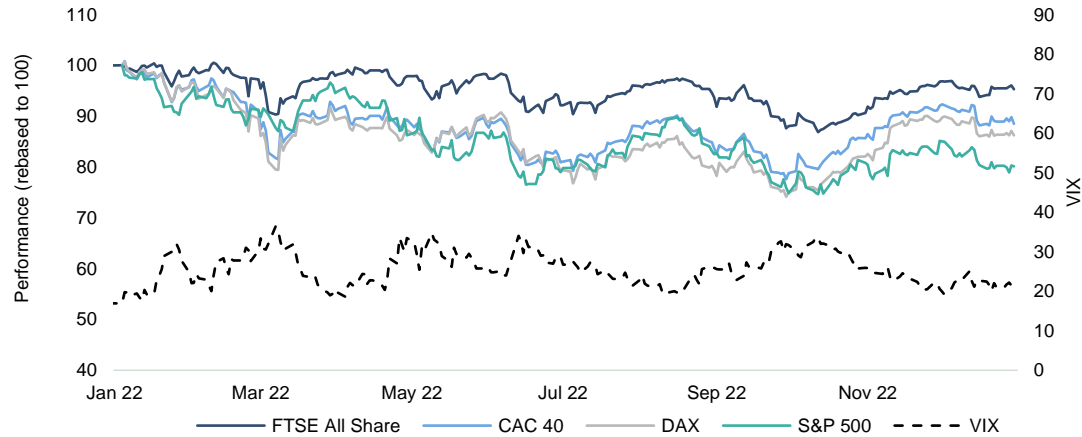


# Executive Summary

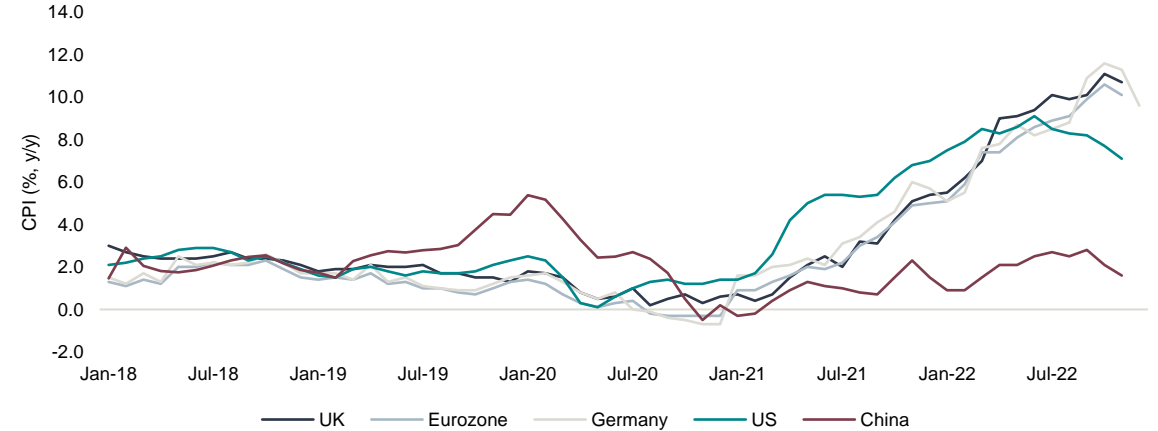
- ▶ Global indices lost ground in December, particularly in the final week, driven by thin trading.
- ▶ Overall, in 2022, UK and European markets witnessed mid-single digit to double-digit losses; the US S&P closed the year down by c.20%.
- ▶ UK ECM activity in December was very low with £53m raised in 6 deals, closing a disappointing year for UK ECM activity, particularly for IPOs. Challenging macro-economic headwinds made for challenging deal-making.
- ▶ Should the worst now be behind us, we would expect UK ECM activity to ramp-up during 2023.
- ▶ UK public M&A gathered pace relative to November, with 5 deals announced
- ▶ 2022 was generally a weak year for M&A activity, especially in H2 when interest rates materially increased debt-financing costs
- ▶ Please contact your usual Investec contact if you would like to discuss the contents of this pack

# Market backdrop

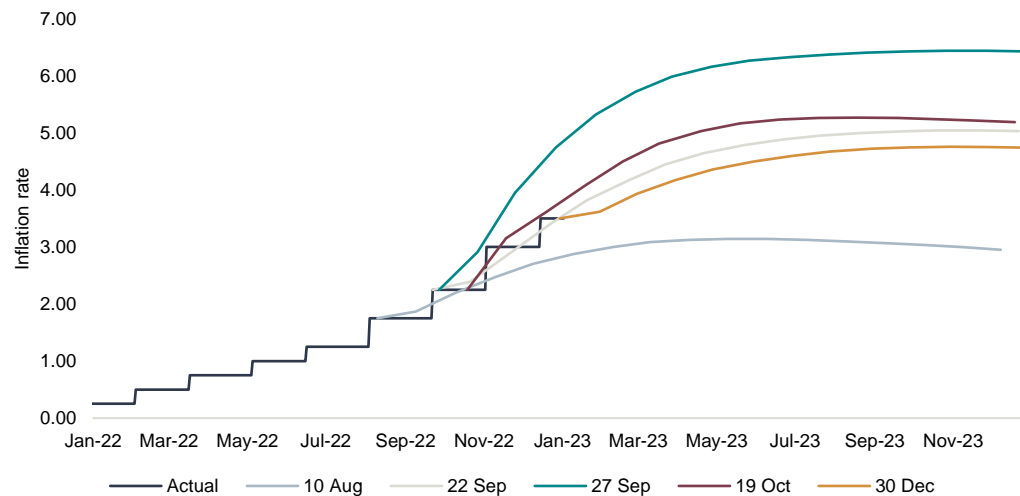
## Global equity market performance & equity market volatility



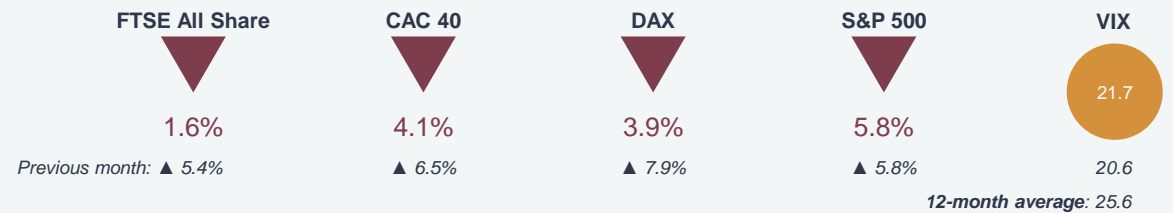
## Inflation start showing signs of deceleration



## UK interest rate projections continue to show signs stabilising



## Monthly market snapshot



## December's key market drivers

UK business investment shrank to 2.5%, 0.5% more than estimated	UK GDP contracted by 0.3% compared to the 0.2% initial reading in Q4 2022	Data released showing UK business confidence remains depressed	Halifax predicts UK house prices expected to fall by 8% in 2023
China continues to ease COVID-19 restrictions, however case count remains a concern	Continuation of hawkish central bank messaging, as inflation containment remains a priority	Russia bans supply of oil from 1 February 2023 for five months, in response to Western price cap	Commentators broadly expect mild 2023 Eurozone recession, driven by energy supply challenges

# UK sector performance

## Monthly sector snapshot

YTD share price performance:



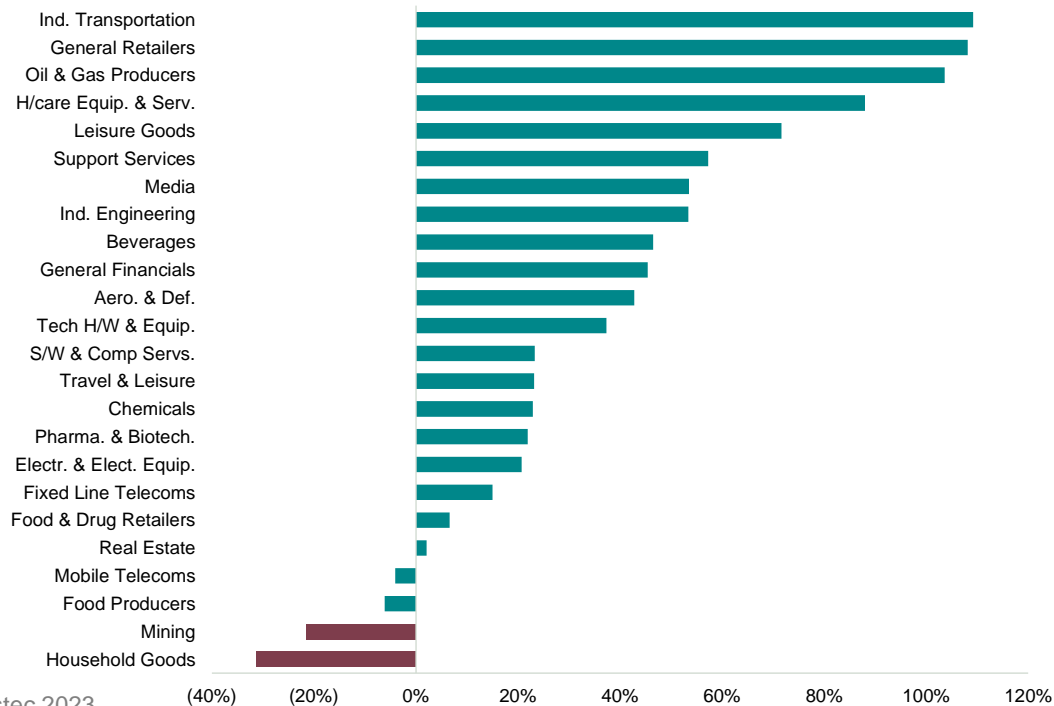
Monthly winners and losers:

- | Winners                 | Losers                           |
|-------------------------|----------------------------------|
| Leisure Goods: 14.9%    | General Financials: (11.5%)      |
| Aero & Defence: 4.7%    | Mobile Telecoms: (8.0%)          |
| General Retailers: 2.8% | Software & Comp Services: (7.3%) |

## Sector performance drivers and outlook commentary

- December saw **Leisure Goods** stocks benefit from lower than expected inflation readings out of the US and the UK, however 2022 was challenging for the sector, as it closed the year down by 10.4%
- General Retailers** experienced a modest gain as consumer confidence and retail sales increased in the UK. According to the CBI, retailers do not expect the recovery to continue into the new year. The sector closed the year unchanged
- Overall, **2022 was a year of losses for most sectors**. Oil & Gas and Aerospace & Defence in particular, benefited from the current geopolitical situation in Central Europe & Asia; whilst Pharma & Biotech and Healthcare Services rose off of factors such as the impact of COVID-19 on general immunity levels, and the backlog in the provision of healthcare services

## Sector performance (since mid-March 2020)



## Sector performance (YTD)



# UK ECM activity reaches its lowest level of 2022 in December

Deal numbers remain in-line with previous months but value drops to its lowest level of 2022, closing a challenging year for UK ECM activity

## Total funds raised




## Total no. transactions



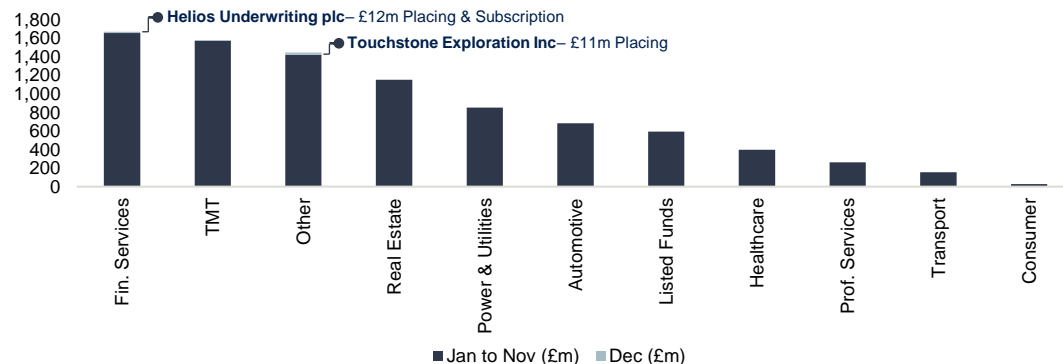
## Prior year period



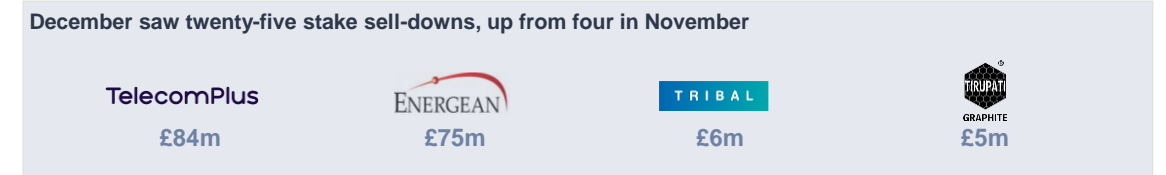
## Selected deal commentary

	<b>Helios Underwriting completes a £12.2m fundraise via an accelerated bookbuild and open offer</b>
	<ul style="list-style-type: none"> <li>Process to be assist in the funding of the necessary underwriting capital for the 2023 underwriting year and for acquiring new LLVs</li> <li>Placing represented approximately 11.8% of the issued share capital</li> <li>Chairman subscribed for 200,000 shares raising a further £312,000</li> <li>Issue price of 156p represented a discount of 0.3% to prevailing share price</li> </ul>

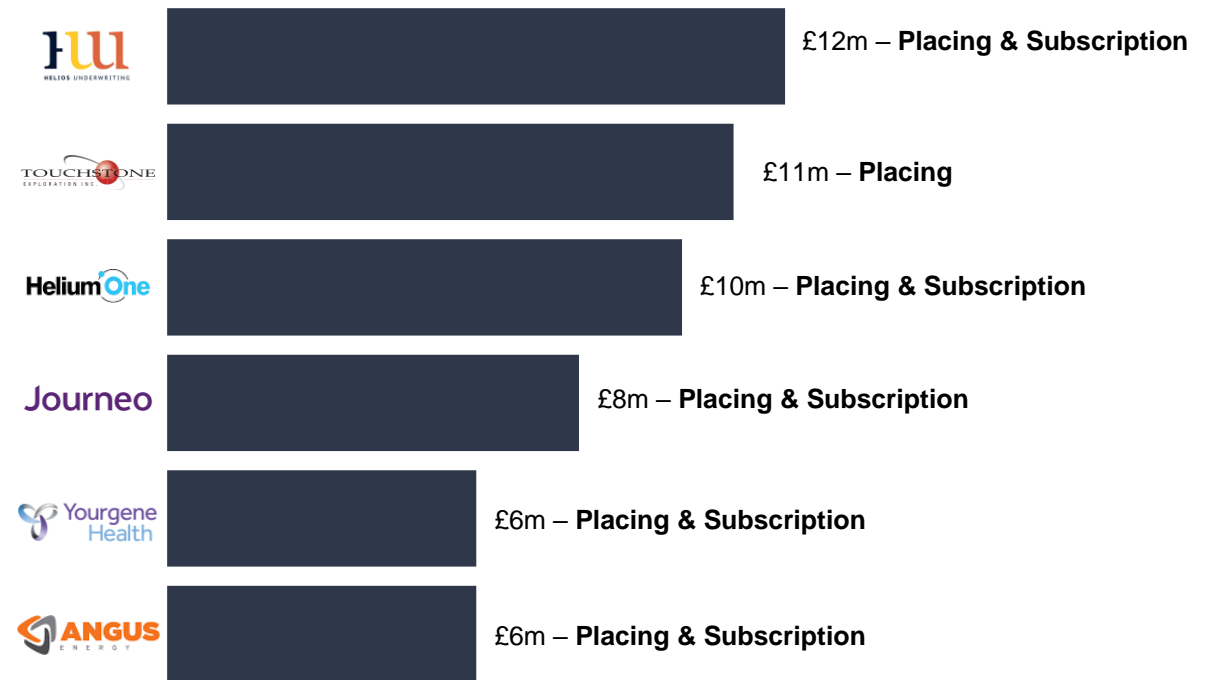
## Public equity fund-raises by sector and highlighted deals



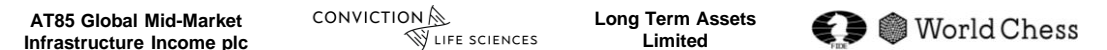
## Selected Sell-down activity over December



## ECM issuance across the deal size spectrum in December



## The UK IPO pipeline



# UK Equity Capital Markets 2022 overview

2021 was very much a 'year of recovery' for global equity markets, which was reflected in strong levels of UK ECM activity. 2022 on the other hand was one where markets were faced with, significant, persistent macro-economic headwinds which dampened both investor sentiment and corporate performance, and subsequently resulted in significantly reduced ECM activity. In spite of what appears to be a challenging near-term outlook, we remain hopeful that UK ECM activity may regain momentum as we move through 2023

- 2022 was a challenging year for global ECM activity, with a generally volatile market back-drop motivated by heightened macro-economic and geo-political making for increasingly difficult deal-making conditions
- UK equity market investors 'voted with their feet' as UK-focused equity funds saw record outflows of £8.38bn over the course of the year. Coupled with waning demand for UK public equity, the year saw corporate valuations suffer, causing many companies to put equity issuance plans on-hold
- IPO activity in 2022 was significantly subdued with only 16 new companies admitted to trading on the London Stock Exchange versus 94 in 2021 and 30 in 2020. Ithaca's IPO and GDR listing of Ming Yang Smart Energy drove deal value in H2 2022 which doubled the previous half whilst deal count was similar in both halves
- Funds raised through follow-ons were down by 59% to £13bn and volumes by 55.6% as 158 deals were completed in 2022 versus 356 in 2021. Activity in the first half of the year accounted for two thirds of 2022's deal value with Q1 driving c.63% of the value in the first half of 2022. Heightened follow-on activity in 2021, also meant that companies entered 2022 with well capitalised balance thus reducing the need for further equity capital for listed groups
- The Energy and Natural Resources sector was a relative bright-spot for UK ECM activity; with numerous relevant companies completing transactions in 2022, such as the £263m IPO of Ithaca Energy; the £592m GDR listing of Ming Yang Smart Energy GDRs and Greencore's £789m Placing
- As macro-economic conditions continue to persist as we head into the new year, we do not anticipate an immediate recovery in UK ECM. Despite this, indicators would suggest that the worst is now behind us; and so it may be reasonable to expect an up-tick in UK ECM activity later on in the year
- We therefore advise companies that are considering an ECM transaction to prepare early, so that they are 'launch ready', when market conditions improve as we move through the year

## Largest IPO

**ITHACA**  
ENERGY

**£263m IPO**

*North Sea oil and gas operator and producer*

### Transaction highlights

- Pricing date: 9 Nov
- 100% primary proceeds, representing c.10.4% free-float
- Shares priced at 250p per share which was the bottom of the 250p-270p range

## Largest Follow-on

  
**BARCLAYS**

**£900m Sell-down**

*Major UK based retail and commercial bank*

### Transaction highlights

- Pricing date: 29 Mar
- Full exit by undisclosed selling shareholder
- Sale represented 3.6% of the issued share capital
- Shares sold at a 6.5% discount to the prevailing share price

## Largest Rights Issue

  
**ASTON MARTIN**

**£663m Rights Issue**

*British manufacturer of luxury sports cars and grand tourers*

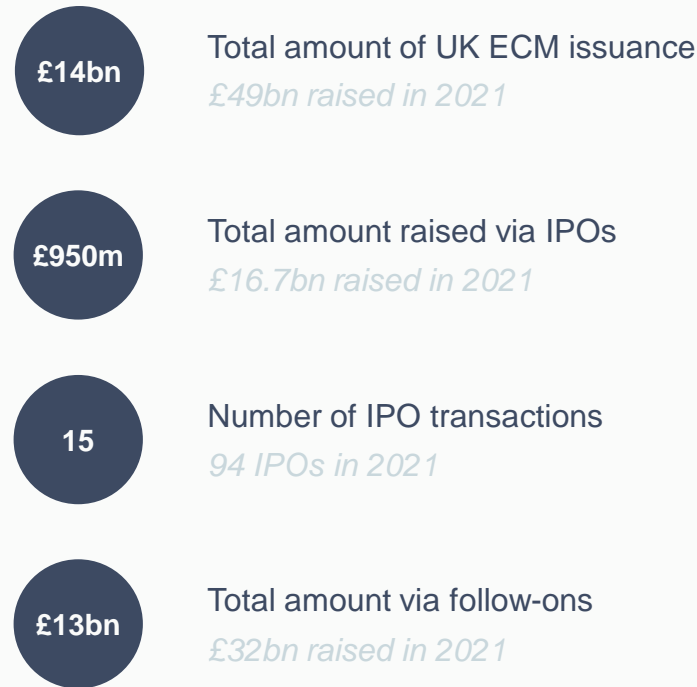
### Transaction highlights

- Pricing date: 28 Sep
- 4 for 1 rights issue, representing a 42.3% discount to TERP
- Proceeds to be used to repay existing debt, strengthen financial resilience and improving cash flow generation

# UK Equity Capital Markets 2022 highlights

A snapshot of UK ECM activity in 2022

## UK ECM 2022 at a glance



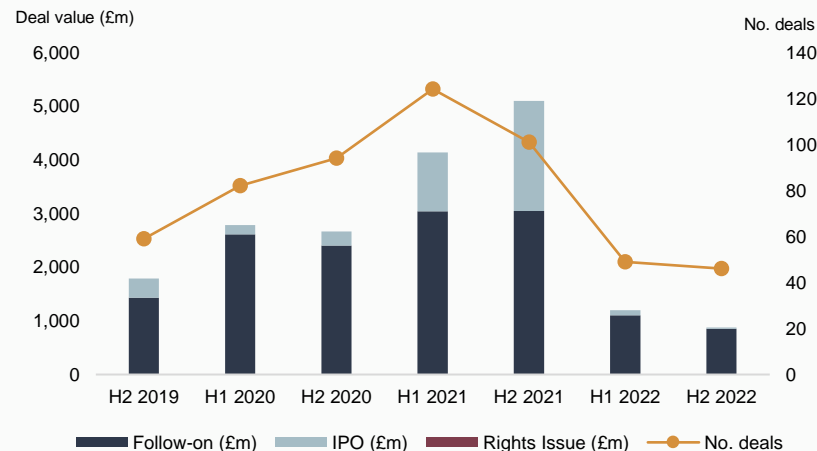
## UK IPO after-market performance



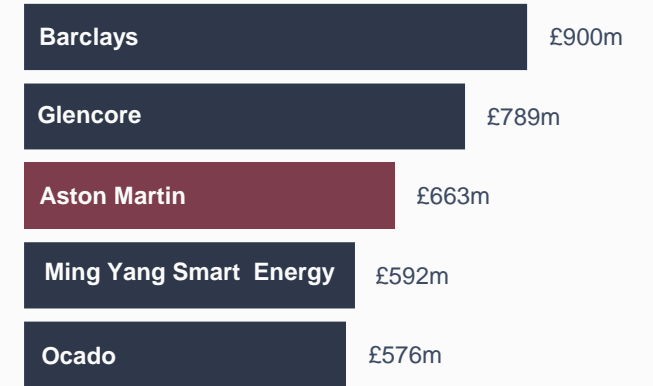
## Main Market ECM activity



## AIM ECM activity



## Top 5 largest UK ECM deals



## Most active sectors

### 1. Financial Services £4.1bn raised, 28 deals

Barclays plc, London Stock Exchange Group plc, Phoenix Group Holdings plc, Beazley plc, International Public Partnerships Ltd, New Energy One Acquisition Corp plc, Financials Acquisition Corp, Gore Street Energy Storage Fund plc, Bluefield Solar Income Fund Ltd, Admiral, IG Group Holdings plc

### 2. TMT £2.3bn raised, 31 deals


Cordiant Digital Infrastructure Ltd, Digital 9 Infrastructure plc, Team17 Group plc, Airtel Africa plc, 888 Holdings plc, Darktrace plc, Moonpig Group plc, Ocado Group plc, Digital 9 Infrastructure plc, AO World plc, Alphawave IP Group plc, Flutter Entertainment plc, Telecom Plus plc

### 3. Natural Resources £1.9bn raised, 39 deals

Glencore plc, Ithaca Energy plc, Engean plc, Atalaya Mining plc, Horizonte Minerals plc, Serica Energy plc, Greatland Gold plc, First Tin plc, Surface Transforms plc, 88 Energy Ltd, Eco (Atlantic) Oil & Gas Ltd, i3 Energy plc, Deltic Energy plc, Cornish Metals Inc, PetroTal Corp

# A snapshot of the current UK public M&A market

UK PLC takeover activity seems to have gained some traction over December, with three recommended potential deals being announced in the month



**XPEDIATOR  
PLC**

*leading provider of freight management services across the UK and Central and Eastern Europe*

**Announcement date:** 20 December

**Offeror:** Cogels Investments Limited, Baltcap & Justas Versnickas

**Offeror type:** Acquisition

**Offer price:** 42p in cash per share with a partial loan note alternative

**Share price prem. / (disc.):** 38.8%

**Transaction highlights**

- On 20 December, Xpediator confirmed that it had received an indicative proposal from a consortium including the company's largest shareholder Cogels, investment vehicle of Stephen Blyth (former CEO of Xpediator), funds managed by Baltcap, and Justas Versnickas, the managing director of, and 20% shareholder in, Delamode Baltics, a subsidiary of Xpediator
- Xpediator's shares rose by 22.3% on the day of the announcement



**K3 capital  
group plc**



**SUN EUROPEAN  
PARTNERS, LLP**

*Multi-disciplinary professional services firm providing advisory services to SMEs*

**Announcement date:** 8 December

**Offeror:** Sun European Partners, LLP

**Offeror type:** Acquisition / Merger

**Offer price:** 350 pence in cash for each K3 Capital share

**Share price prem. / (disc.):** 16.7%

**Transaction highlights**

- On 8 December, K3 Capital confirmed that, following approaches from multiple parties, it was in advanced discussions with Sun European which had negotiated the terms of the offer at 350p per share
- On 15 December, the offer was confirmed
- Offer values K3 Capital at £271.1m, implying a 13.1x EV / adjusted EBITDA (FY22)

## IN THE STYLE

**Announcement date:** 8 December

**Offeror:** n/a

**Offeror type:** Formal sales process

**Offer price:** n/a

**Share price prem. / (disc.):** n/a

**Transaction highlights**

- On 8 December, In The Style announced its decision to conduct a strategic review of the Group's business as a whole
- In The Style Board's believes there has been limited liquidity for shareholders for some time and the current market capitalisation does not properly reflect the underlying potential of the Group



**CRESTCHIC**



**aggreko**

*Leading specialist manufacturer of load banks*

**Announcement date:** 8 December

**Offeror:** Aggreko Limited


**Offeror type:** Acquisition / Merger

**Offer price:** 401 pence in cash for each Crestchic share


**Share price prem. / (disc.):** 13.0%

**Transaction highlights**

- A recommended offer from Aggreko Limited, a global supplier of mobile and modular power, temperature control equipment and energy services
- The offer values Crestchic at £122m, implying an EV / EBITDA of 13.7x
- Aggreko noted that the addition of Crestchic will help accelerate Aggreko's plan to target high-growth attractive end-markets such as renewable energy and data-centres
- Crestchic's share price went up by 11.8% the day following the announcement



**wentworth**



**MAUREL & PROM**

*Independent Tanzania-focused natural gas production company*

**Announcement date:** 5 December

**Offeror:** Maurel Prom

**Offeror type:** Acquisition / Merger

**Offer price:** 32.5 pence in cash for each Wentworth shares

**Share price prem. / (disc.):** 30.0%

**Transaction highlights**

- A recommended offer from Maurel & Prom, an independent oil and gas company focused on exploration and production in Africa and Latin America
- Maurel & Prom is currently the majority owner and operator of Wentworth's the Mnazi Bay gas project
- Wentworth's shares were up by 25.2% on the day of the announcement



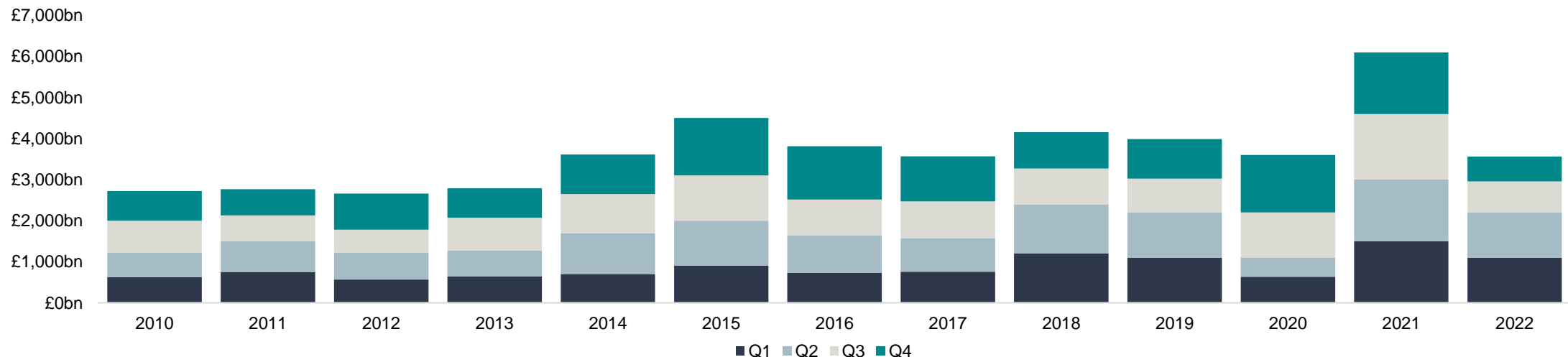
# Key themes for M&A in 2023

M&A activity across the globe suffered record decline in the second half of 2022 as high interest rates put an end to cheap financing

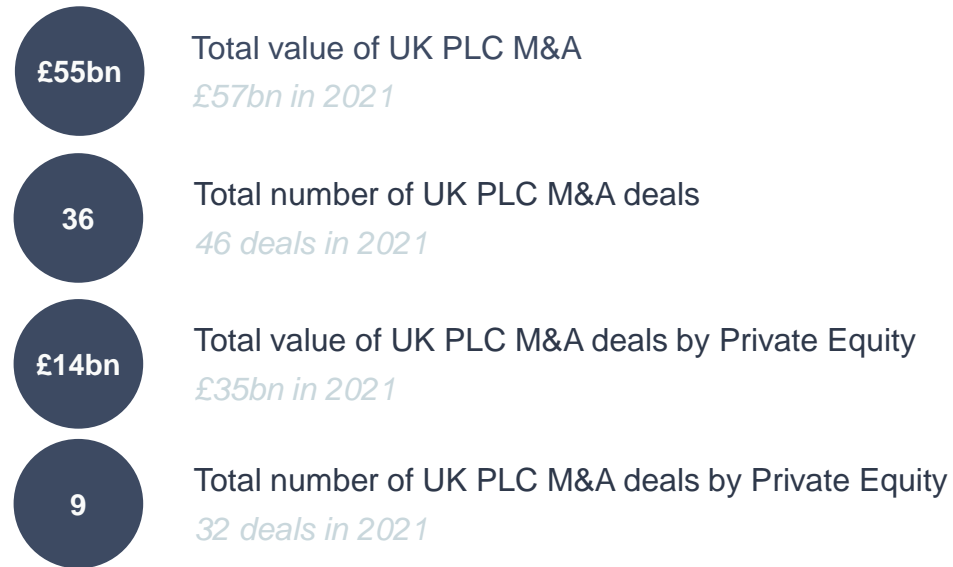
## Key Themes

1. Rising interest rates and access to financing look set to be a continuing limiting factors in M&A activity as we move into 2023
2. The ongoing strategic shift to digital, innovative and new disruptive business models continues to drive M&A for corporates
3. Inflationary pressures, quantitative tightening, rising interest rates, and depressed valuations and ratings may manifest in a growing appetite among PE for more opportunistic, complex deals
4. Shareholder activist campaigns, lack of trading liquidity and fund redemptions may force corporate boards to conduct strategic portfolio reviews, and could serve as a driver for future M&A

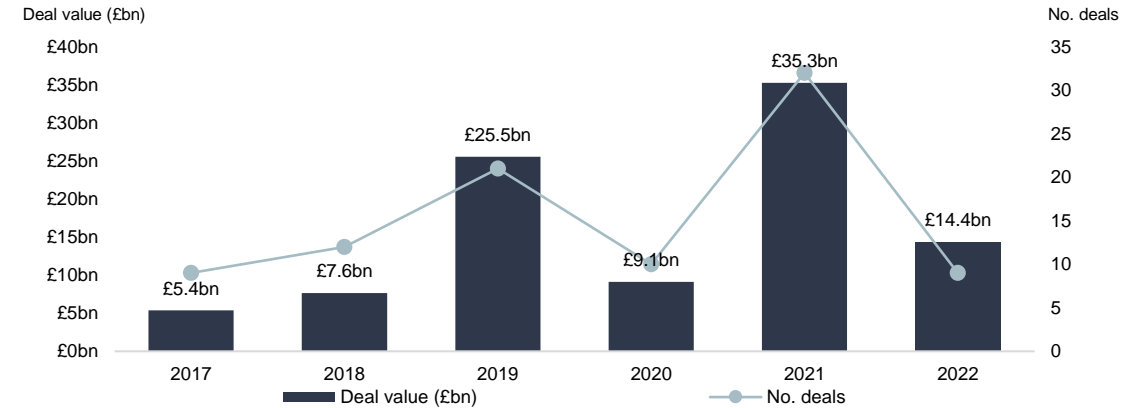
Global M&A deal-making value in 2022 in-line with COVID-19 stricken 2020 and 31% below 2021



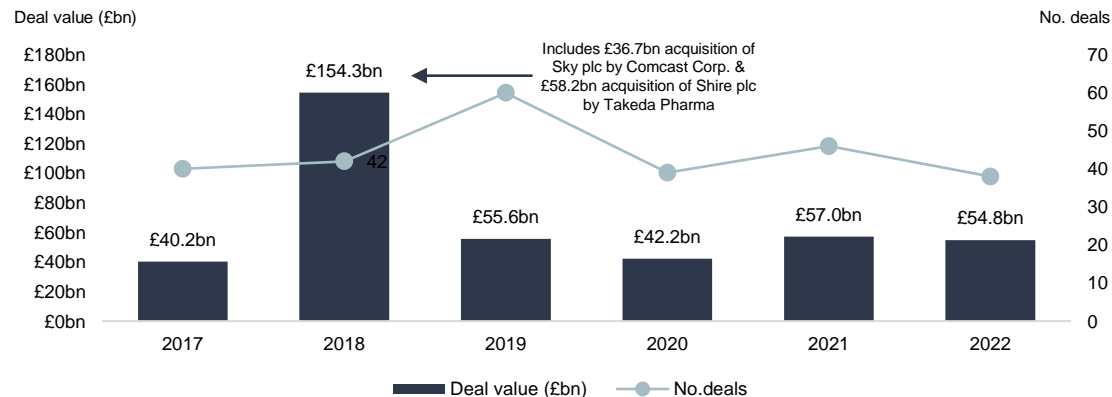
# UK public market M&A activity in 2022



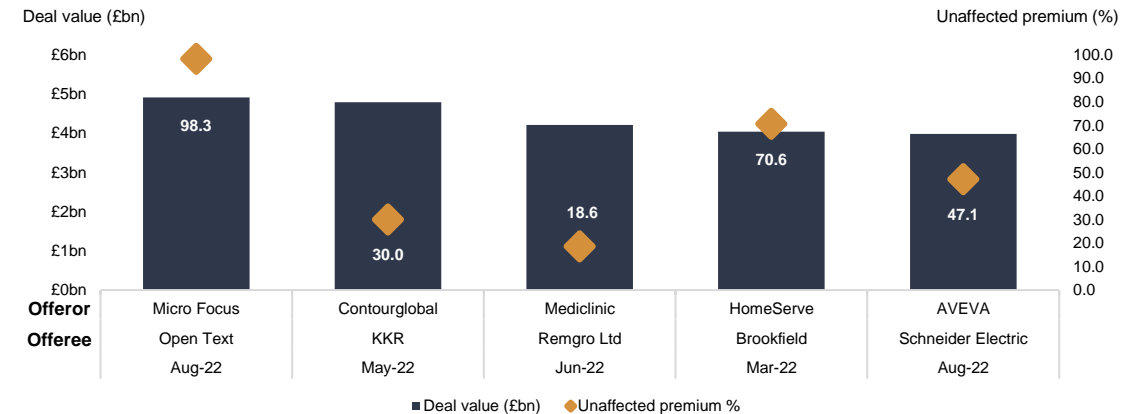
Following a record number and value of bids from private equity, higher interest rates and worsening economic outlook reduced private equity activity in UK public markets



58 announced bids for UK-listed firms in 2022 of which 38 were successful, deploying £54.8bn



Largest public M&A deals announced in 2022



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