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How stock markets have supported UK business during 2020

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Despite an overall slowdown in deal activity, stock exchanges have played a vital role in supporting UK business in the wake of COVID-19 according to Carolyn Gelling, Head of Isle of Man Office at The International Stock Exchange Group.

Figures from the London Stock Exchange show that more than £16 billion was raised through its equity Main Market during the first half of 2020 and nearly £2.9 billion raised on AIM during the same period, comparatively higher than in the same period last year.

For ourselves at The International Stock Exchange (TISE), there were more new listings on the Exchange during the first six months of 2020 than in the same period of any other prior year since the business was established in 1998. During the first half of this year, 390 securities were admitted to the Official List, which represented a rise of more than 60% on the same time in 2019 and of course, came despite the backdrop of COVID-19.

It is particularly relevant to note that in the case of LSE and AIM, new issues were far outstripped by the further issues from companies already on the market.

Decline, plateau or thrive

Taking a wider context, to include deals completed outside of public markets, research firm Beauhurst has published its findings on all publicly announced equity fundraising carried out during the first six months of 2020. They reported that the amount raised had declined by 7% from the previous period and by 30% from the same period last year.

This is not surprising, given trepidation for the UK economy, coupled with the logistical challenges of completing due diligence and transactions in the COVID-19 lockdown but it also reflects our observation that deals were still being made, albeit in lower numbers.

Beauhurst also noted that 15% of deals completed in the first half of 2020 were done so at lower valuations than the recipient's previous funding round and that the number of seed stage deals had climbed, whereas first-time fundraising had taken a nose-dive.

Most sectors experienced a decline or plateau in deal numbers, including fintech and artificial intelligence but digital security and e-Health start-ups had thrived during lockdown.

North West activity

The Experian MarketIQ update included a focus upon the North West where there was a notable drop in activity during the first six months of this year, with a 40% decline in M&A deal volumes compared to the same period in 2019. It was however pleasing to see that the North West had an involvement in 10.6% of UK transactions in H1 2020, while contributing 7.4% of overall value, thanks partly to the Unilever and EG Group deals during February and April.

The report also highlighted that there had been a comparatively substantial rise in the total number of rights issues carried out in the North West, with an increase of more than 80% year-on-year, including boohoo group plc, Auto Trader Group Plc, Assura Plc and Dechra Pharmaceuticals Plc, and each using their respective fund raises for different purposes.

Yorkshire activity

The Experian MarketIQ update included a focus upon Yorkshire and Humber where there was a notable drop in activity during the first six months of this year, with a 36% decline in M&A deal volumes compared to the same period in 2019 and the lowest recorded number of deals since the beginning of the first half of 2014. There were 220 transactions recorded, of which 141 were carried out before the 23 March UK lockdown, and 79 after.

The report also highlighted that rights issues had dominated the top deals in the region, including those carried out by Dart Group and Polypipe Group of Leeds and Doncaster.

Weathering the storm

The overall decline in deal activity is not surprising given that the initial phase of the COVID response was largely focused upon stabilising businesses, getting funding in place, reviewing costs and making sure that the companies were in a position to weather the storm.

Some businesses were seeking funding because they needed to do so, whereas others were taking advantage of what has been regarded as cheaper ways of accessing funding whether that be through public markets, the Coronavirus Business Interruption Loan Scheme (CBILS), Bounce Back Loans or elsewhere and we anticipate that this opportunistic trend will continue.

Whether there is an immediate upturn in deal activity as the UK moves towards lockdown exit remains to be seen. Transactional activity within the private equity and real estate sectors has certainly slowed.

However, at TISE already we have seen some of this work replaced by refinancing activity, whether essential or opportunistic, and there is also plenty of capital ready to be deployed at the most opportune time and which could lead to new exchange listings in due course. Full and partial capital exits for business founders and successful entrepreneurs and MBOs with employee share arrangements remain topical, particularly within the considerations of North West and Yorkshire SMEs.

Revive and thrive

What is notable is that stock exchanges have certainly played their part and helped many organisations to secure funding in the public markets, either through equity or debt issuances. Ultimately, it seems that there is a renewed recognition that stock exchanges can provide a complementary offering to the private markets and one which can help support businesses in the UK to revive and thrive in the wake of COVID-19.

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