

UK IPO reforms



The role of unconnected research in the
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The role of unconnected research in the UK: IPO reforms

From 1 July 2018, the UK's financial regulator, the Financial Conduct Authority (FCA) introduced new provisions on the availability of information in the UK equity main market IPO process. The changes are intended to improve the range, quality and timeliness of information made available to the market and, in particular, to restore the centrality of the registration document or prospectus in the overall process.

The reforms affect the order in which information is released to the market, with the registration document or prospectus now published ahead of the Intention to Float (ITF). Furthermore, issuers who brief the syndicate analysts are required to invite or hold a second briefing for unconnected analysts or, as a minimum, share all information given to connected analysts with unconnected analysts. This means the entire IPO process is played out in the public domain, opening it up to a wider group of potential investors (and wider market commentators). A separate Conduct of Business Sourcebook (COBS) provision also puts new restrictions on investment banks, which will no longer be able to wall cross in-house analysts during the beauty parade for advisory mandates.

The reforms require equality of information between connected and unconnected analysts, and change the timing of when research can be issued to the market.

We can provide unconnected research services across the entire IPO process, from initial preparations through to a first day of dealings report. Our research reaches the whole market, including retail investors, as it is MiFID II compliant, being free of charge to all readers.

When and what do the reforms apply to?

The reforms affect all Main Market UK IPOs where key events take place after 1 July 2018. Given that this includes analyst presentations, in reality it means that it only started to affect IPOs coming to market from September 2018. Recent IPOs for Aston Martin Lagonda and Funding Circle followed the new guidelines.

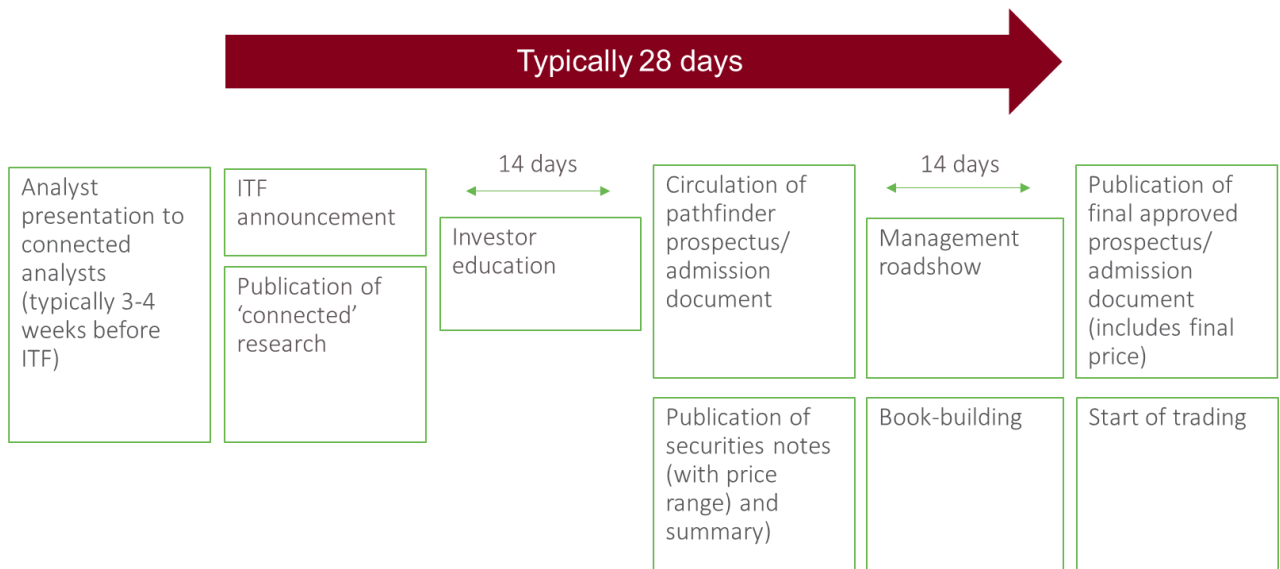
While the reforms currently only have a direct impact on Main Market IPOs, given the frequent overlap between larger AIM IPOs and smaller IPOs on regulated markets, the FCA is encouraging banks to adopt these practices for all IPOs, including substantial offerings on the AIM market. Some market commentators also suggest the reforms could be adopted as Europe-wide best practice by London-based investment banks engaged on all EMEA IPOs.



How has the timing changed?

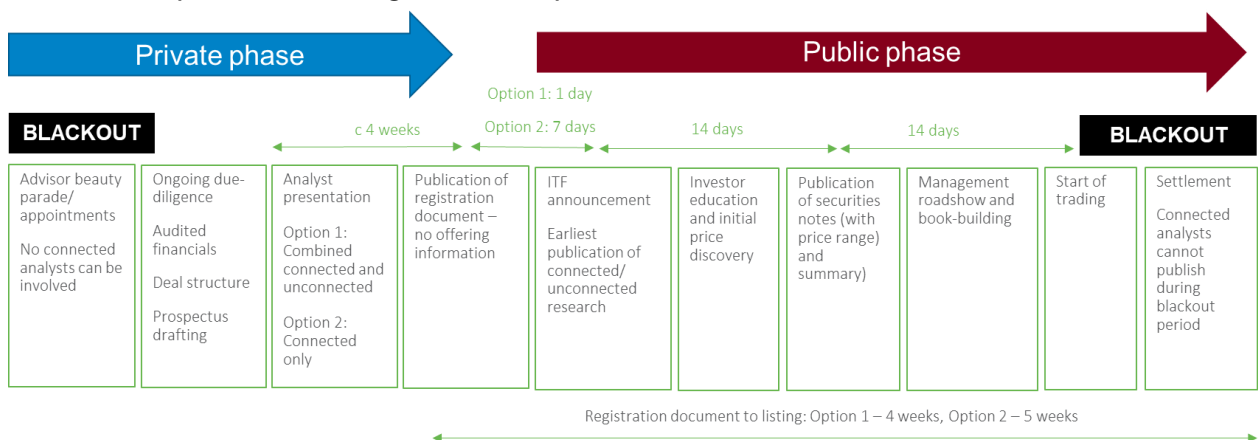
Previously, investors relied on a draft 'pathfinder' prospectus and connected research to educate themselves ahead of meeting management, with a price range announcement made before the final investment decision. Other than an ITF announcement, the entire IPO was run by investment banks and most often only offered to their existing institutional clients.

Typical previous process for UK IPOs (final eight weeks)



The new process introduces publication of the registration document/prospectus into the IPO process significantly earlier and before the ITF. This gives the public earlier access to the prospectus, meaning the education phase ahead of the management roadshow takes place on a more level playing field.

New UK IPO process reflecting reforms (expanded)



Issuers/advisers will decide whether to invite unconnected analysts to the analyst presentation and this will trigger either:



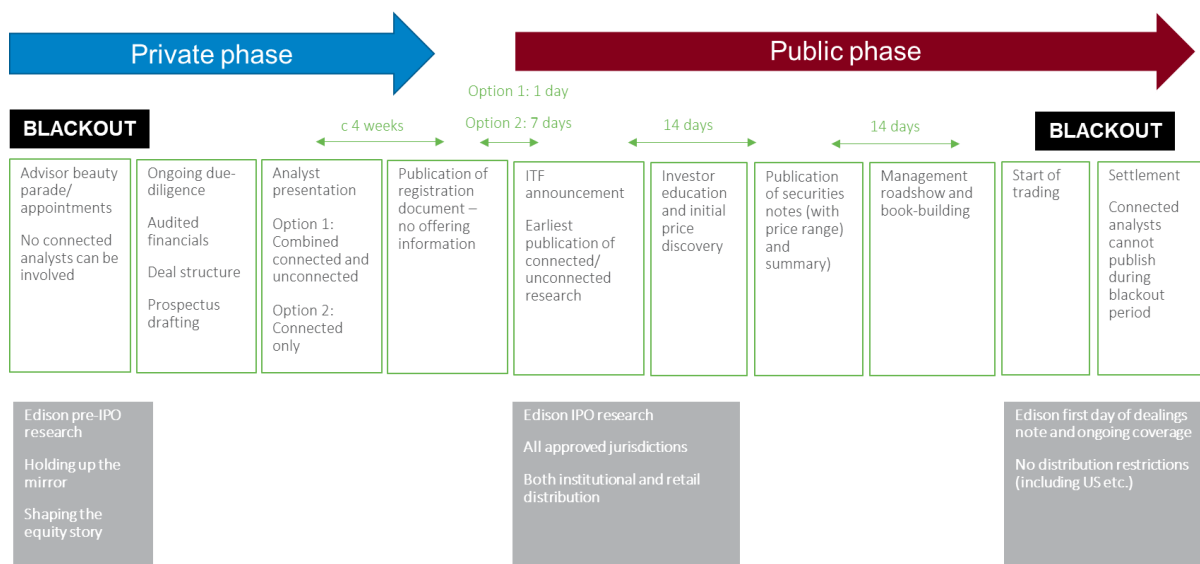
- a one-day window between the registration document/prospectus and ITF, in the event that unconnected analysts receive identical access to management as connected analysts (Option 1); or
- a seven-day window between the registration document/prospectus and ITF, in the event that unconnected analysts do not receive access to management at the same time (Option 2). This would potentially extend the overall process to nine weeks from the analyst presentation.

How does our unconnected research assist the new IPO process?

The IPO reforms significantly enhance the benefits to issuers of engaging unconnected research analysts during the IPO process, and in particular during three key periods:

- pre-IPO research ahead of engaging all advisers;
- IPO research that can sit alongside connected research but inform the entire market (including investor classes such as retail investors, who previously might not have participated in an IPO); and
- first day of dealings and early trading research, when connected analysts are still under a mandatory blackout period and there is likely to be no consensus numbers.

The role of Edison's unconnected research in the new IPO process



Pre-IPO research – checking an equity story ahead of engaging advisers

Alongside the COBS provision that introduces the prospectus earlier in the IPO process, a complementary COBS provision relating to potential market abuse now requires that potentially



connected analysts will not practically be permitted to participate in the beauty parade and pitch process for IPO investment bank mandates. This is a very real problem for issuers, both in terms of: a) understanding the potential issues that analysts might view as significant when a company comes to market; and b) understanding how the potentially connected analysts will view a story before they appoint advisers.

Our pre-IPO research allows potential issuers to have a third-party, market experts assess the equity story and ensure it is ready for the IPO process. 'Holding up the mirror', we would seek to:

- help the company identify its USPs and refine the come-to-market story before engaging with potential banking advisers;
- provide an independent valuation range that can help test IPO expectations; and
- give an investor perspective to identify and resolve issues before the IPO pitch process goes 'live'.

IPO advisers and investment banks pitching for business will also perform this service in an attempt to win mandates, but our equity market knowledge provides issuers with robust independent analysis and feedback that can prove invaluable ahead of awarding mandates and at relatively low cost.

Our pre-IPO research can also complement Early-Look, 'pilot fishing' meetings. Some market participants are reporting that investors are becoming increasingly disenchanted with the Early-Look process and our pre-IPO research can provide an alternative means of testing the IPO story before the process goes live.

IPO research: A very different distribution model that can also shorten the IPO process

We believe the investor landscape for UK IPOs will change with the IPO reforms, with many more investors now looking to participate. This is because the IPO will be run in a public forum with the registration document/prospectus published before any research and the ITF. In a UK context, this should increasingly open up the IPO to retail and private client brokers in addition to institutions, either through direct retail offerings or via intermediary co-ordinators.

We have had a longstanding role of providing unconnected IPO research that can support and complement the efforts of brokers in:

- providing a rigorous and objective, third-party view on valuation and the equity story;
- obtaining direct access to a broader group of potential investors, including retail as well as institutions; and
- targeting different investor pools to brokers, bringing incremental demand.

Our research can be distributed to all investors in qualifying jurisdictions. This is a key benefit of the IPO reforms, given that potentially many more investors, including retail investors, will be interested in participating in the IPO than are on the radar of the mandated banks and brokers.



Our research can also provide balance to any potential unconnected research from sell-side analysts that may not be particularly helpful to the IPO process. While we retain absolute control of our research processes and principles, we strive to educate all market participants about the business, strategy and prospects and get this across in a digestible manner for all potential investors.

With the reforms, new IPOs are likely to receive far more public scrutiny from market commentators (eg press and other media), given the registration document/prospectus will be made public ahead of the ITF. Having publicly available research to put the IPO investment case into a concise form for market commentators is likely to be of particular benefit to issuers. Our IPO research can also contribute to the wider media engagement programme supporting the IPO.

Finally, a timely advantage of engaging unconnected research providers is to potentially foreshorten the IPO process. By including unconnected analysts at the same management presentation as connected analysts, both analyst groups would be able to publish research as early as one day after the prospectus is published. This would save a week on the IPO timetable if unconnected analysts are not given the same access to management information ahead of the prospectus being published. Confidentiality is preserved during the IPO process as a result of our engagement with issuer clients – unlike other unconnected buy-side and sell-side analysts.

First day of dealings and early trading research

Being unconnected from any capital-raising activities, we are free to publish research on the first day of dealings. This is a critical period when connected analysts are under a mandatory blackout period, consensus earnings are unlikely to be available, and where the overall market can be starved of information to encourage early trading liquidity.

Courtesy of our distribution model where research is free to all readers, our research can reach all investor classes and, in particular, encourage trading among tier two and three institutions, wealth managers, PCBs and retail to help with early trading liquidity.

Post-trading, our research can be freely distributed to all qualified jurisdictions, including those that would be restricted from receiving IPO research. This can rapidly open the pool of investors with eyes on a story as trading gets underway.

Finally, on trading our research can immediately go into initial and ongoing consensus numbers (in many cases, our numbers are potentially the only available numbers until after the mandatory blackout period).

How do our unconnected analysts get involved?

Unconnected analysts are professional research analysts who are not employed by the syndicate banks and brokers and who distribute research to third-party clients.



Issuers who elect to proceed with Option 1 as described above will be able to advise unconnected analyst firms of a potential IPO by alerting various lists of independent research providers (as compiled by the Association of Financial Markets in Europe [AFME] and the European Association for Independent Research Providers [Euro IRP]). Issuers and advisers can also invite additional unconnected analysts at this stage and **we would encourage everyone (issuers and advisers) considering Option 1 to have an indicative conversation with us at this stage.** With 70+ analysts covering all key sectors, we can provide unconnected research on issuers in all sectors.

For issuers choosing Option 2, unconnected analysts will be invited to access IPO materials once the registration document or prospectus is published. Again, we would be keen to get involved, but **to add value during the IPO we would need to be engaged (under a separate contract and confidentiality agreement) earlier in the process than the other unconnected analysts** (given the short time available to provide professional quality research).

Summary

The implications of the IPO reforms are likely to be wide-reaching and we need to wait and see what practices are adopted by issuers and their advisers. However, we see significant benefits to both by engaging Edison as an unconnected research provider, either before or during the IPO process. The key benefits are as follows:

- Through pre-IPO research, our analysts can be engaged early to test the equity story and help shape the investment case before large sums are spent on the IPO process.
- Our IPO research has a fundamentally different distribution model that will:
 - inform all market participants, including retail and others not formerly exposed to IPO opportunities;
 - provide balance and context when other unconnected research analysts may not be helpful to the IPO process; and
 - provide wider market commentators with concise information to inform comment.
- Engaging unconnected analysts such as those at Edison under Option 1 can shorten the IPO process by a week, while preserving confidentiality ahead of publication of the registration document/prospectus.

Our research can be published and distributed on an unrestricted, MiFID II-compliant basis once trading commences, helping early trading liquidity when there is a research/consensus earnings vacuum due to blackout restrictions. **Please contact us if you would like to discuss the process.**

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