

# Cross-Border IPO Index

## First Half 2015

July 2015

### Cross-Border IPOs Fare Well Despite Subdued Market

While total initial public offering (IPO) activity slowed from the exceptional pace of 2014, cross-border listings continued to gain in popularity relative to domestic IPOs in the first half of 2015.

Capital raised through cross-border listings in the first half of 2015 fell only 24% to US\$20.6 billion, in contrast to the value of domestic IPO fundraising, which was down 40% year-on-year to US\$44.3 billion.

Baker & McKenzie's Cross-Border IPO Index decreased slightly from the record 29.1 for the first half of 2014 to 28.8 in the same period this year, reflecting a less active IPO market across the board. But, cross-border deals reflected in the index score grew their market share by 5% year-on-year, accounting for 32% of the global IPO market by deal value in the first half of 2015, compared to 27% in the same period last year.

This growth in cross-border market share is primarily the result of a strong performance in Asia Pacific, where companies raised 75% more capital via cross-border deals in the first half of 2015 than in the same period last year. Cross-border Asia Pacific is the only segment examined to post a value gain.

All of the five largest cross-border IPOs in the world this year so far have been in Asia, including four which raised over US\$1.0 billion, and all involved Chinese companies listing in Hong Kong.

These include the first and fourth largest IPOs in the world so far this year: Huatai Securities, which raised US\$5.0 billion; and GF Securities, which raised US\$4.1 billion.

At a sector level, spurred by the success of these mega listings, financial services businesses saw the most success in the first half of 2015, raising US\$12.2 billion in total.

The healthcare and industrials sectors also raised meaningful amounts of capital, totaling US\$2.8 billion and US\$2.4 billion, respectively. In contrast, real estate companies saw the largest decline, with volumes down 89%.



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### Positive Long-Term Outlook for Cross-Border Listings

"While we continue to see strong strategic drivers for cross-border listings, market volatility is higher than it has been for some time, dampening overall IPO activity in the first half of this year," said Koen Vanhaerents, chair of Baker & McKenzie's Global Capital Markets Practice Group. "As we predicted, macroeconomic uncertainty has forced many companies to delay listings in the short term. In the long run, however, we are optimistic that the appetite for cross-border transactions will remain robust in the coming years."

During the year to date, political and economic uncertainty have created volatile conditions, with the discussions around Greece, closely fought elections and quantitative easing featuring prominently in Europe, tight markets in the US, and Asian markets coming some way off recent peaks.

This is reflected in broader market performance with major stock market indices bouncing between slight gains and losses for the year to date. The macroeconomic and financial environments have also pressured cross-border IPOs post-listing, with many of the largest deals posting double-digit declines through the first half of the year.

Nevertheless, these near-term overhangs are not expected to weigh long term on markets. This outlook is supported by Baker & McKenzie's recent [Global Transactions Forecast](#), which sees cross-border IPO activity returning to last year's highs by 2017, bolstered by the continued rise of emerging market-based companies pursuing cross-border listings to access deeper pools of capital.

### Asia Pacific: Chinese Listings Spur Significant Funding

For the first half of the year, cross-border fundraising in Asia Pacific grew by 75% in capital raised, up to US\$15.6 billion in the first half of 2015, from US\$8.9 billion in the same period last year. As a result, the region's H1 2015 index has increased from 41.4 to 54.3, reflecting a 31% jump.

The majority of the gains can be attributed to the initial successes of the Shanghai-Hong Kong Stock Connect, announced in November of last year, which enables global investors to access Chinese companies listed in Hong Kong.

Nearly all of the capital raised in the region reflected Chinese companies listing on the Hong Kong Stock Exchange (HKSE), the majority of which were from the financial services industry.

As a result, the HKSE ranked first in cross-border IPO capital raising regionally and globally during the first half of 2015, with companies raising an aggregate US\$15.55 billion. This included two Chinese financial services companies, Huatai Securities and GF Securities, which combined to contribute 59% of capital raised in the region.



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Although capital raisings have increased in the region, the volume of cross-border IPOs in the first half of 2015 has decreased by 43% compared to the same period last year. The HKSE, which had the most number of cross-border listings during H1 2014 with 37 listings, has hosted only 20 cross-border IPOs for this year's first half. Chinese regulators are expected to continue to review its market listing requirements, such as potential changes to allowed ownership structures, aimed at fostering increased domestic listings by Chinese businesses.

"As anticipated at the end of last year, we have seen initial successes from the opening of the Shanghai-Hong Kong Stock Connect," said Ashok Lalwani, chair of Baker & McKenzie's Asia Pacific Capital Markets Practice Group. "Looking ahead, we see some near-term volatility. But we are optimistic for the long term, as exchanges in the region seek to promote stronger market environment. This should create stronger hubs for investment, particularly for emerging Chinese, Southeast Asian and Indian companies."

## North America: Strengthening Markets Opening Opportunities in Second Half of 2015

In contrast to the strong gains seen in Asia Pacific, issuers raised only US\$2.2 billion through 23 cross-border IPOs in the North American region in the first half of 2015, a decrease from 33 cross-border listings where issuers raised US\$8.4 billion in the same period last year. These declines reflect general declines in overall IPO activity – domestic deals also fell 33% by value.

Nasdaq was the top exchange for cross-border IPOs in the region by value and volume, with issuers raising US\$1.8 billion through 21 cross-border listings.

Worldwide, Nasdaq was the most active exchange for cross-border deals by volume and third in value. Cross-border IPOs were typified by Galapagos NV, a Belgium-based pharmaceuticals company, which raised US\$242 million through an upsized offering, reflective of the strong investor appetite for healthcare businesses. Healthcare listings accounted for more than half of all funds raised in the region, followed distantly by technology and industrials companies, which raised US\$335 million and US\$311 million, respectively.

Particularly in North America, the strength of cash-rich companies, as well as private equity and venture capital, has taken a lot of IPOs off the table as attractive private companies have gone to trade sales or financial investors. In addition, following the success of Alibaba's substantial US\$25 billion offering in the second half of last year on the New York Stock Exchange, exchanges in other regions, particularly Asia Pacific, have looked to bolster their competitiveness.

"We fully expect that North American markets will continue to represent an attractive fundraising opportunity for global businesses via both public and private investment," said Amar Budarapu, chair of Baker & McKenzie's North America Corporate & Securities Practice Group. "While the latter has seen robust activity of late as volatility has stalked the public equity markets, we expect windows of opportunity to appear later in the year for IPOs, as the US economy also seems to have recovered from its flat spot over the winter."



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## EMEA: Near-Term Overhangs But Long-Term Optimism

Cross-border IPOs in EMEA followed similar trends as those seen in North America, with US\$2.8 billion raised by issuers through 19 listings, representing declines of 71% and 32%, respectively. The majority of these listings were completed on the London Stock Exchange (including AIM), with US\$2.3 billion in capital raised via 14 transactions during the first half of 2015. Globally, the London Stock Exchange ranked second in cross-border IPO funds raised.

IPO activity within the region was generally diverse across a number of sectors, which is characteristic of a mature IPO cycle. Activity was led by industrials, which raised US\$925 million. Ireland-based homebuilder Cairn Homes PLC's US\$498 million float on the London Stock Exchange led the region as the largest listing, helping to the lift that sector as the second largest in terms of capital raised. As seen in other regions, healthcare companies also saw favor in the region, attracting US\$488 million through four cross-border listings in the first half of 2015.

Domestic IPO activity in the region fared relatively better with the amount of capital raised only declining 30% on a 16% decline in volume. More than half of domestic listings reflected U.K. businesses listing in London, speaking to the effects of macroeconomic uncertainty in the region dampening opportunities for cross-border activity.

Private equity continued to be a major influence with almost 40% of regional IPOs being PE-backed in the first half of 2015. Investment appetite among PE funds also played a role. A number of dual-track deals switched to trade sales at the end of the second quarter, softening the first half IPO market end despite a strong list of IPO candidates.

"Although the first half of this year couldn't match the frenzy of 2014, the market has performed solidly despite a minefield of political uncertainties and risks in the region," said Edward Bibko, chair of Baker & McKenzie's EMEA Capital Markets Practice Group. "Although market participants seem to be taking a breath and a fresh look at their financing options, investor confidence remains amid good performance by new issuers. We expect the market to be primed for a successful second half."



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## Latin America: Primed for Economic Growth

Equity markets in Latin America continue to be defined by meaningful volatility. Weakened commodity prices and domestic policy uncertainties in many countries continue to prevent Latin American markets from returning to growth as many have anticipated.

While Latin America did not host a cross-border IPO in the first half of 2015, there continues to be long-term optimism that the region can be a meaningful source of investment for businesses. This is supported by Baker & McKenzie's Global Transactions Forecast, which expects Brazil, the region's largest economy, to see positive GDP growth in 2016 with 2.6%+ growth beginning in 2017.

"While Latin America continues to see subdued equity markets, we are optimistic these economic and structural headwinds will subside and lead to positive growth in the coming year," said Pablo Berckholtz, chair of Baker & McKenzie's Latin American Capital Markets Practice Group. "As we see growth return, particularly in Brazil and Mexico, building investor confidence is expected to spur cross-border investment in many of the emerging markets in the region."

## Methodology

Baker & McKenzie's Cross-Border IPO Index is calculated as a weighted average of three components based on IPO activity data: the amount of capital raised, number of IPOs and number of issuer home jurisdictions involved. Each component is calculated as the quotient of the component's value when considering cross-border IPO activity divided by that component's value when considering overall IPO activity. The population of data underlying each calculation is based on aggregate data of IPO transactions completed on select stock exchanges and is grouped by region. Determination of stock exchanges for inclusion is based on market capitalization and certain diversification factors. For 2015, the scope of IPO transactions considered has been broadened to include transactions that are initial public offerings in a given jurisdiction, and prior year comparison data has been restated to reflect this broader scope. All data underlying the calculations is sourced through Thomson ONE.

## About Baker & McKenzie

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