



BAKER & MCKENZIE

H1 2016

# Cross-Border IPO Index

# Global Cross-Border IPO Index, Half Year 2016

## The Price of a Storm of Uncertainty: US\$40 billion and rising

The global IPO market finally succumbed to negative sentiment in the first half of 2016. While cross-border listings have outperformed domestic listings in every first half since 2013 in terms of market share by value, deals of both types fell dramatically in the first half of this year. They fell more or less in tandem, with domestic deals marginally less affected as the issuers brave enough to come to market sought safety in home markets. The global cross-border index fell to 22.2, remaining above the lowest point recorded in the index in 2013.

Cross-border deals fell 72% by value and 55% by volume, while domestic deals were down 56% by value and 45% by volume, reflecting both the flight to safety and the fact that smaller deals tend to be domestic.

Issuers in total completed just 167 IPOs worldwide, raising just over US\$25 billion, the smallest total by some distance since this index was created in 2011. This is US\$40 billion less than H1 2015 and 52% less than H1 2012, which was the worst first half since 2011 until now.

Negative sentiment is responsible for these exceptionally low levels of market activity, driven by a convergence of predominantly political event-driven uncertainty, now exacerbated by the United Kingdom's decision to leave the European Union.

## Sectors: volume and value plummet in key sectors

Globally, the impact was seen equally across the leading stock exchanges for cross-border listings, with London recording the highest decline in value at 99% with only four cross-border IPOs.

In terms of new listings, the financials sector continued to dominate the cross-border IPO market, raising almost US\$3.4 billion in the first half of 2016. However, the capital raised by the sector during the period decreased by US\$8.7 billion or 72% compared to the same period in 2015.

Cross-border capital raised by other sectors also declined significantly, with the retail segment registering the most decline in terms of value, at 97%, followed by the high technology sector at 81%. The year has been dubbed as the worst year for tech IPOs, as companies turn to more lucrative fundraising rounds in private markets and as previous tech IPOs (e.g. Fitbit and Box) performed poorly and are now trading below their issue prices. The weak performance of the cross-border IPO market is also attributed to the lack of listings from the telecommunications and media & entertainment sectors. Only the consumer products and services sector saw an increase - at 24% - in terms of capital raised for the first half of 2016, compared to the same period in 2015.

### Cross-Border IPO Index: **Global**



Healthcare companies still dominate the cross-border IPO market in terms of volume, with 7 listings globally accounting for 24% of total cross-border IPO volume activity. The sector is followed by companies in the financial and industrial sectors, representing 17% and 14% of the total volume, respectively.

However, this does not paint the dire economic picture the headline figures might suggest, at least not outside EMEA.

The global financial crisis was just that; a systemic financial crisis rooted in an unprecedented collapse of the US housing market, creating contagion that both contributed to bank volatility and revealed that many of the world's largest banks' business models were unsustainably vulnerable to such an economic shock. What we see now is different; a political crisis creating a wave of uncertainty, emanating from the UK rather than the US but with unknown global contagion. The UK is the world's sixth largest economy and the City of London is one of the world's largest financial centres alongside New York and Hong Kong. The same three locations are home to the vast majority of cross-border IPOs. Global equity markets will undoubtedly be affected in the medium term, but it does not necessarily follow that a political crisis will generate an equivalent economic crisis, particularly on a global scale.

In fact, the world's largest stock markets, which also account for the vast majority of cross-border IPOs, are performing quite well. The S&P 500 has been climbing steadily since the end of January and is almost back to where it was at its H1 2015 peak.

The VIX index (of implied volatility of the S&P 500) also painted a strange picture of high volatility in the early months of the year when deals were actually happening followed by a dramatic drop off in February, when deals slowed. This inverse correlation is unusual and suggests equity capital raising will be opportunistic for the foreseeable until some political certainty returns.

## Reading the runes after dislocation

The biggest factor in analysing the cross-border IPO market is that the UK's decision creates a dislocation between the first half of the year and the second, particularly in the EMEA region.

For the EU, its planned Capital Markets Union to both deepen and broaden the pool of investors and increase liquidity is now at risk, given that it was spearheaded by UK Commissioner Lord Hill, who has resigned. Meanwhile, the biggest immediate risk to both domestic and cross-border IPO activity going forward is a prolonged period of uncertainty that crosses the Atlantic ahead of the US presidential elections, potentially making both issuers and investors sit on the sidelines in two of world's three largest financial centres.

Longer term, there is a valid question mark over London's place near the top of the tree for cross-border IPOs if the UK is unable to negotiate continued access to the single market, particularly regarding the passporting of a single offering document throughout the EU under the European Commission's proposed new prospectus regulation. London will certainly remain a key global financial centre though, with the London Stock Exchange and FTSE100 structurally part of the global economy rather than particularly exposed to the UK economy.

EU cross-border IPO activity may not fall in aggregate over the long-term; a larger proportion may simply take place on Euronext or the Deutsche Boerse for example.

Outside EMEA the picture is different for now. US corporates are struggling with profitability, but the economy remains strong, and Twilio, the first tech IPO to price above expectations, has just taken place. Asia Pacific cross-border deals are centred heavily on Hong Kong, which is significantly down in deal volume but as long as China's fundamentals remain robust, may well pick up in H2 and into 2017 and remains the world leader for cross-border deals. Latin America remains an outlier, full of long term potential yet struggling with political problems and the impact of low commodity prices. However, a new single platform for trading across Peru, Chile and Colombia is in the works, and changes to securities regulations have been made to lay the groundwork for cross-border deals.

### KEY GLOBAL DATA POINTS



**US\$5.8 billion**

CAPITAL RAISED BY  
CROSS-BORDER IPOs

**29**

NUMBER OF  
CROSS-BORDER IPOs



**72%**

CROSS BORDER IPOs



**56%**

DOMESTIC IPOs

CHANGE IN CAPITAL RAISED

## A structural rationale for domestic listings

Uncertainty has a number of effects, but three of the pertinent ones for the IPO market are:

Firstly, that an increase in conservatism drives issuers towards the comfort of the known: their home markets.

Secondly, currency instability makes for an incentive to take out this risk by listing shares priced in an issuer's functional, or home, currency.

Thirdly, issuers may look to move beyond the major money centres to less prominent markets to continue to access international capital.

"Across the world we are seeing renewed interest in domestic markets with potential issuers seeking guidance on a much broader group of listing options than in the past", commented Koen Vanhaerents, chair of Baker & McKenzie's Global Capital Markets Practice Group.

## Sentiment driving markets but fundamentals will win out eventually



**Koen  
Vanhaerents**

*"Our prediction - that uncertainty, which made for a poor end to 2015, would continue to depress activity in 2016, has come to pass. The UK's decision to exit the EU will further prolong the uncertainty. Elsewhere, the receding threat of interest rate hikes, possible stabilisation of currencies against the dollar and gently rising commodity prices may provide some support for a better second half in Asia Pacific and perhaps North America. Temporary issues have been driving sentiment in the year to date, with volatility more political than genuinely economic and markets on hold rather than in deep distress", said **Koen Vanhaerents, chair of Baker & McKenzie's Global Capital Markets Practice Group.***

All this has masked reasonable underlying market stability. However, there may not be a global uptick of cross-border IPOs in H2 or the early months of 2017, as aside from deep uncertainties in Europe and economic conditions in China, genuine questions also remain about corporate profitability in Western economies. The lingering effects of currency volatility could also provide companies with a strong incentive to look first at listing in their home markets.

## LOW CHINESE IPO VOLUME HAILS REGIONAL DECLINE

After three years of growth, cross-border IPO value in Asia Pacific declined by 68.2% to US\$4.96 billion, as a result of lower Chinese IPO volume. The cross-border index continues to be highest among the regions and despite a decline to 41.2 shows a level of stability across the last 5 years. Australia is the exception. One of the most buoyant jurisdictions, it has seen a good run of IPOs and secondary listings. Overall, the regional market appears likely to improve in the second half of the year, with Line Corp.'s planned IPO in the Tokyo and New York stock exchanges expected to raise as much as US\$1.1 billion in July.

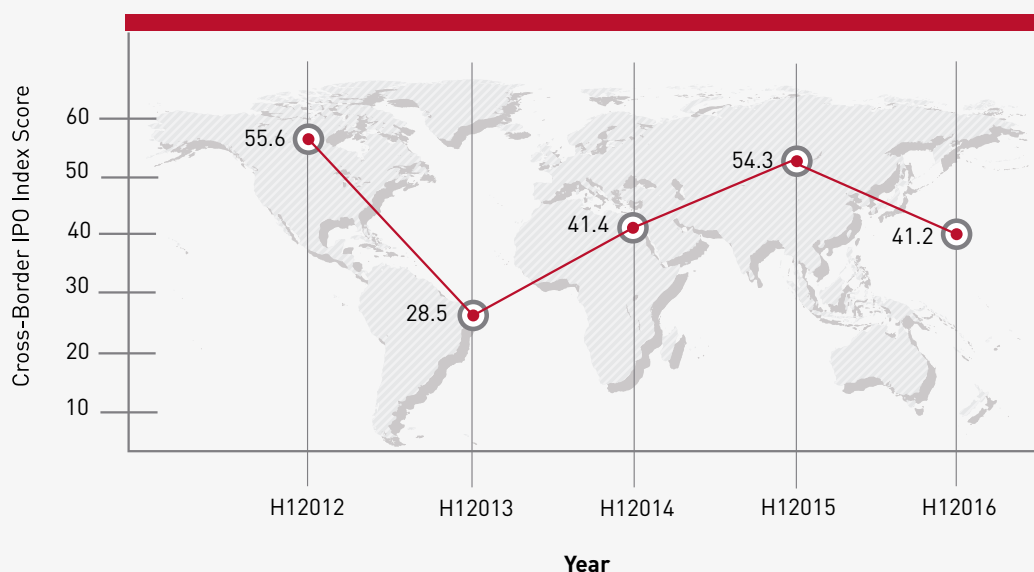
Despite continuing to dominate the Asia Pacific cross-border IPO market, capital raised by the financials sector in the first half of 2016 decreased by 75% compared to the same period in 2015. The healthcare and retail sectors exhibited much higher year-on-year value declines, at 99% and 95%, respectively. This was slightly offset by growth in capital raised by companies in the high technology, industrial, materials and consumer products and services sectors.

**David Holland, chair of Baker & McKenzie's Asia Pacific Capital Markets Practice Group** commented: *"IPO activity across Asia Pacific is slow. China has been a significant driver of cross-border IPOs in the region, but economic uncertainty there has impacted on the number of transactions. Across Asia Pacific more generally, low commodity prices are continuing to have a negative impact in a number of countries, as are political uncertainties caused by election cycles and governance issues".*



**David Holland**

**Cross-Border IPO Index: Asia Pacific**



### KEY ASIA PACIFIC DATA POINTS



**US\$4.96 billion**

CAPITAL RAISED BY CROSS-BORDER IPOs

**17**

NUMBER OF CROSS-BORDER IPOs



**68%**

CROSS BORDER IPOs

**0%**

DOMESTIC IPOs

CHANGE IN CAPITAL RAISED

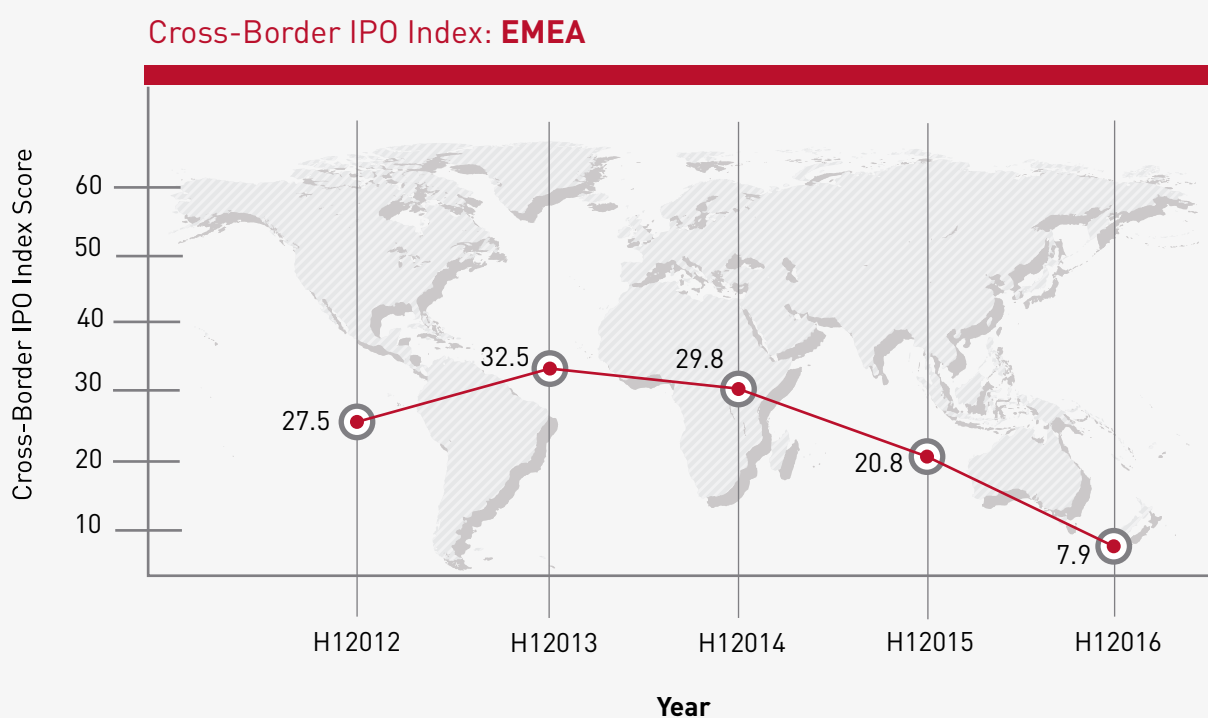
## BREXIT DISLOCATION DOMINATES

More than any other region, the first half of the year is disconnected from the second following the UK's decision to leave the EU. After an initial flurry of London listings before April, the market was quiet in the run-up to the UK referendum on EU membership, but with expectations for a strong second half of the year following a "remain" vote. Things did not go to plan, and the uncertainty and renewed market volatility resulting from a Brexit vote is expected to have severe consequences for EMEA markets in the months to come.

The British referendum assured that it would be a poor first half. Year-on-year capital raised from domestic and cross-border listings in EMEA dropped by more than 50% (56% and 97%, respectively) during the first half of 2016. The cross-border index continued to fall and recorded its lowest recorded level at 7.9.

The London Stock Exchange and Euronext combined saw only 4 cross-border IPOs, with six in total in the region raising only US\$76.53 million. Domestic deals fared somewhat better, with 50 deals raising US\$7.32 billion. Healthcare, energy and materials were the only active cross-border sectors. The Netherlands, UK and France accounted for all ten of the largest domestic IPOs, with the financials and media & entertainment sectors making up six of the top ten deals, but the entire region saw only a single billion dollar IPO.

Concerns are now of course focused on Brexit fallout, which has implications for not only the UK but Europe as a whole and emerging markets in Africa that are heavily reliant on foreign institutional investors to support any significant IPO activity due to small investor bases and little domestic liquidity.



## KEY EMEA DATA POINTS



**US\$76.5 million**

CAPITAL RAISED BY  
CROSS-BORDER IPOs



**97%**

CROSS BORDER IPOs

**6**

NUMBER OF  
CROSS-BORDER IPOs



**56%**

DOMESTIC IPOs

CHANGE IN CAPITAL RAISED

EU markets apart from London have recovered at the time of writing, 10 days after the referendum, which is positive. Short term UK monetary stimulus and the precipitous fall in the pound may result in a dead cat bounce in the FTSE, but that is unlikely to draw issuers to conduct London IPOs in the immediate future. However, It is notable that the FTSE100, dominated by multinationals with earnings bases in dollars, has not been affected as much as the FTSE250, which is far more exposed to the UK economy. Most market players are now talking about an extended period of uncertainty with a series of other questions that will keep things on hold: a new prime minister; likely another general election; the Scotland question; populist movements in other EU countries; bank relocations; and uncertainty around the future of financial regulation. The emerging markets may be a beneficiary of this disarray, and we may see issuers from these regions attract more international capital. The markets will likely continue to see moderate to severe volatility in the near-term, which will make activity choppy. Uncertainty over the timing of triggering Article 50, which begins the process of the UK leaving the EU, is also a source of volatility, both in the interim and again when it takes place.

### Where now for the EU Capital Markets Union?

The EU needs further harmonised securities, insolvency, tax and pensions regimes to deliver the value of the proposed Capital Markets Union project. In this regard the EU may still be able to develop a true capital markets union without the UK. The European Union still has a once in a lifetime opportunity to seize the initiative and deliver a deep and integrated capital markets union that has the potential to do away with the mismatch between where capital is located and major markets, cutting transaction costs in the meantime. If the member states can agree on a way forward. That is of course a big if.

Several countries on the continent have bankers and traders the equal of their British counterparts, many of whom ironically learned their trade in London but now may have incentives to return to their home cities as banks turn inward for a time to reflect on how Brexit will affect their business. The primary issue though is liquidity, which would take any EU exchange years to build up to the level available in London, especially as Brexit means turmoil in the EU, not just the UK. New York and Hong Kong may be the biggest beneficiaries in the long run.



## Private sector driving integration

Nasdaq has already in effect integrated the Nordic capital markets, while Euronext has done the same across France, Belgium, the Netherlands and Portugal. Deutsche Boerse may now be more than ever competitive, especially with Frankfurt now being the seat of EU bank regulation. Its US\$14.3 billion deal to take over the London Stock Exchange, the biggest pending City-relevant takeover affected by the referendum outcome, has been approved by LSE shareholders and makes even more sense now in creating a European exchange that can better compete with New York and Hong Kong. The current merger may provide clues to how Brexit will unfold for the City. The deal may now take months for regulatory clearance though and risks becoming a political football.

The new entity being headquartered in the EU would signal a shift toward the Continent. More aggressive calls are already being made to take business away from London, including in France to move clearing operations for EU securities out of the UK.

Brexit does not mean London will lose its place as a leading financial centre. A major question in the Brexit fallout though is London's future as a global ECM powerhouse. Unless passporting under the EU Prospectus Directive is preserved post-Brexit there may be a stark choice to make. This may be between accepting either a different role as a centre for IPOs, mainly focused on domestic and emerging markets business, which is highly volatile, or more broadly something of a race to the bottom, by using tax incentives and looser oversight more akin to an offshore tax haven to attract business to the City. The UK's current chancellor has already hinted at this possibility in his proposal to cut corporation tax to 15%. Whether this can come to pass however is unknown, as voters angry at years of austerity measures may not stand for big tax cuts for corporations, nor would it make EU negotiations around exit terms easier.

## A cascade of uncertainty



**Edward  
Bibko**

*"The UK's vote to leave the EU feels, at least initially, like the turkeys have voted for Christmas," said **Edward Bibko, chair of Baker & McKenzie's EMEA Capital Markets Practice Group.** "It will take some time for the markets to fully digest the Brexit shock and its consequences. Investors are figuring out how to trade in this new environment. Banks need time to reflect. Volatility will also continue, at least in moderate form, for the foreseeable future. It will be a very challenging period for ECM, and we are likely to see more quick-to-market secondary transactions than IPOs in the coming months. The effects of uncertainty and volatility are expected to continue into 2017. Still, London remains one of the world's premier listing venues with deep liquidity. Brexit shouldn't change the fundamental attractiveness of London, but, with more competition from US and Asian exchanges, the regulatory uncertainty in the wake of Brexit certainly doesn't help. Fundamentally, this is not an economic crisis. It is a political one. But if it paralyses transactional activity even in the medium term a recession will go from being a possibility to a racing certainty."*

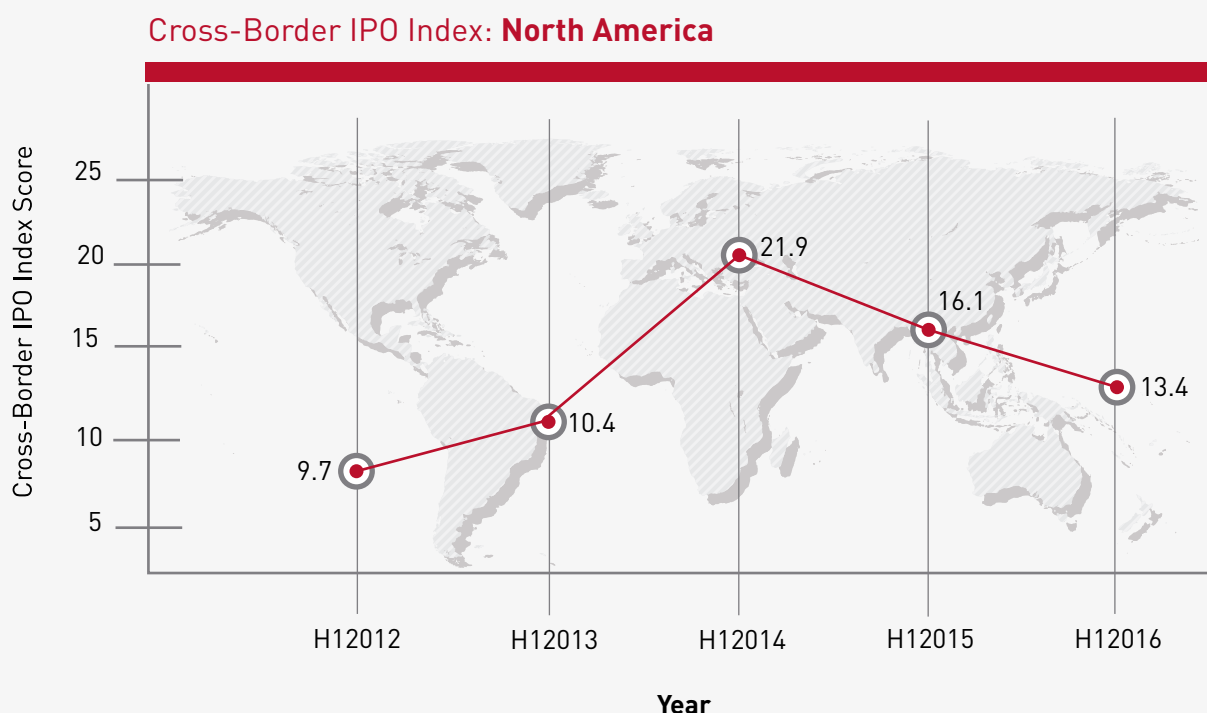
## North America

### SLOWEST PERFORMANCE SINCE 2009

Uncertainty has once again characterised the North American IPO market, which remained muted particularly during the first quarter, signalling the region's slowest performance since 2009.

While not quite at the drastic decline of 2015's -74% drop, the first half of 2016 saw cross-border IPO values fall a further 64%, with no deals valued above US\$1 billion. The cross-border index has continued to fall over the last 3 years, to 13.4, but remains above the 2012 low point.

The scarcity of IPOs can be attributed to several factors including mark-downs of private company valuations, market volatility and the drop in energy prices. However, given that 140 companies have requested Nasdaq or NYSE symbols, growth could well be expected in the future.



## KEY NORTH AMERICA DATA POINTS



**US\$802.2 million**

CAPITAL RAISED BY  
CROSS-BORDER IPOs

**6**

NUMBER OF  
CROSS-BORDER IPOs



**64%**

CROSS BORDER IPOs



**68%**

DOMESTIC IPOs

CHANGE IN CAPITAL RAISED

Financials, healthcare and consumer products & services were the only sectors active in raising capital through IPOs during the first half of 2016, as strong headwinds remain due to the ongoing political situation. North America has however experienced more listings for companies which are seeking lower valuations, as they should experience less impact from volatility.



**Amar  
Budarapu**

**Amar Budarapu, chair of Baker & McKenzie's North America Corporate & Securities Practice Group, added:** *"A turbulent macroeconomic environment was the context for a slow start for IPOs in early 2016 - the lowest since 2009. The US presidential election adds to the uncertainty for the listing environment in the US in the second half of 2016. However we expect a pick up in healthcare, financial and consumer sectors, where some signs of growth are already evident."*

### STIFLED POTENTIAL

There were no cross-border IPOs within Latin America in the first half of 2016, and one domestic IPO, representing a 74% year-on-year decline in capital raised. This is attributed to the continued weakness of markets in the region. The sole domestic IPO was a Mexican real estate company raising just over US\$100 million. Cross-border issuers continue to turn to New York, with Argentina's Grupo-Supervielle the sole H1 listing raising over US\$320 million on the NYSE.

Local markets aside from Brazil lack depth of investors and so have historically looked to dual listings in New York to access a much wider investor base. However political and economic issues in Brazil persist, with corruption scandals and the impeachment of the president. Such uncertainty makes for challenging equity conditions.

Argentina has also been a difficult market but shows future promise with elections due that may bring much-needed economic stability and create the necessary conditions for IPOs. Peru has only seen a handful of listings over the last decade and the picture is opportunistic with after market performance historically poor, disincentivising investors from making the long term commitments needed to build a stable foundation for both cross-border and domestic IPOs.



**Pablo  
Berckholtz**

*“Markets in Latin America have been quiet on the IPO front now for more than half a decade, “ said **Pablo Berckholtz, chair of Baker & McKenzie’s Latin America Capital Markets Practice Group.** “New York is the key money centre for the region but stability is needed before large companies will consider dual listings. Argentina shows potential off a low base, especially after the Supervielle IPO in May this year, while Mexico is the most politically and economically stable potential source of IPOs. A key positive development is the creation of a new single platform for trading across Peru, Chile and Colombia - this will eventually provide the framework for listing on all exchanges via a single offering document to access more institutional investors and deeper liquidity. It shows potential but much more work remains to be done. Changes to securities regulations have been put in place, but tax laws still need to be harmonised before the platform can become viable.”*



## 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. IPO activity includes priced IPO and IPOs expected to price by 30 June 2016. All data underlying the calculations is sourced through Thomson ONE.



## About

Unprecedented volatility and intense regulatory change since the financial crisis have greatly impacted the capital markets sector. Regulators are demanding greater transparency and high levels of litigation continue. This backdrop makes raising and managing capital while complying with changing legal and listing requirements a major challenge for public and private companies and governments.

We provide practical, commercially-focused advice to maximize deal certainty. We represent issuers, investment banks, and selling shareholders in equity and debt transactions including domestic and cross-border IPOs, debt issuances and programs, and complex, multi-jurisdictional acquisitions and divestitures involving public companies.

Since 2012, we have been involved in more than 400 debt and equity offerings with a total value of US\$120 billion. Using our unmatched global network, comprised of more than 420 capital markets lawyers in 42 countries, we offer a fully integrated service, working across borders and practice areas including M&A, Private Equity, Antitrust & Competition, and Compliance to help clients achieve the best outcome. Cross-border listing resources, including the group's recent publication on navigating risk in cross-border capital raisings, can be found at [www.crossborderlistings.com](http://www.crossborderlistings.com) and on the Firm's capital markets blog at [www.thecapitaltrend.com](http://www.thecapitaltrend.com).

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From starting off with four lawyers, a secretary and fees totaling US\$75,000 in 1949, to becoming one of the largest law firm by revenues, markets and headcount today, our commitment to excellence underpins our path to success. With 77 offices in 47 countries and 13,000 people, we are the world's premier global law firm.

Our growth has been organic, giving us a strong, common culture that runs through our firm. For six decades we have followed clients into new markets, each time establishing offices driven by local lawyers and talent.

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