Baker McKenzie.

IPO Report 2020 & Key Trends Set to Shape 2021

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Foreword

IPO Report 2020: Heightened Activity Brings Lessons for 2021

2020 has been a historic year in many ways and when it comes to IPO activity, it is no different. This year, the world has seen the highest IPO capital raising activity in a decade, with USD 331 billion raised across 1,591 listings.

This growth in value is primarily due to a steady increase in the number of megadeals (valued at over USD 1 billion) over the last five years, driven by Mainland Chinese and US companies. Sino-US tensions, COVID-19 and the 2020 US elections have also significantly impacted activity and led to a number of major changes for key stock exchanges, which have contributed to a growing shift in the balance between cross-border and domestic listings, as key changes in certain jurisdictions are encouraging many to list closer to home.

Throughout the year, we have seen fluctuations in market activity, dictated by the global slowdown, as COVID-19 impacted both developed and emerging economies across the world in Q1 and Q2. The strong boost in IPO activity is accounted for by Q3 2020, when high market liquidity and the rebound of markets saw the volume of listings more than double as compared with Q2 2020.

2020 also saw the highest number of US companies going public in 20 years, the vast majority of which were domestic listings. This is also the first time in history that US companies have raised over USD 100 billion through IPOs. In Latin America, Brazil also recorded the largest number of IPOs since 2007 with 26 IPOs on the B3 stock exchange, representing USD 8 billion. This is the first double-digit figure since 2017.

This historic year has also seen emerging trends in how companies are choosing to go public and raise capital, most notably the marked increase in Special Purpose Acquisition Companies (SPACs) in the US, with 2020 also seeing the largest SPAC IPO in history.

As the world turns its attention to managing economic and business recovery in Q4 2020 and beyond, we look to understand the key themes and trends that may impact IPO activity in 2021.

In this report, you will find key thoughts built with market data and expert insights on:

- Overall IPO activity and key drivers of growth
- VC- and PE- backed activity
- Industry frontrunners and alternate routes to listing
- Geopolitical, regional and stock exchange trends
- The increasing importance of ESG to corporates, boards, banks and investors.

As always, we look forward to taking the conversation further with you, working together to prepare for the year ahead in 2021.

Helen Bradley
Global Chair of Capital Markets, Baker McKenzie

Global IPO Activity

2020 in Review

Global IPO Activity Surges

2020 saw a 42% growth in capital raised as compared to 2019, with USD 331 billion raised across 1,591 listings (Figure 1).

All data in this report is from Refinitiv, correct as of 3 December 2020, unless otherwise stated.
All data in this report has been rounded to the nearest percentage point, USD billion or USD million.

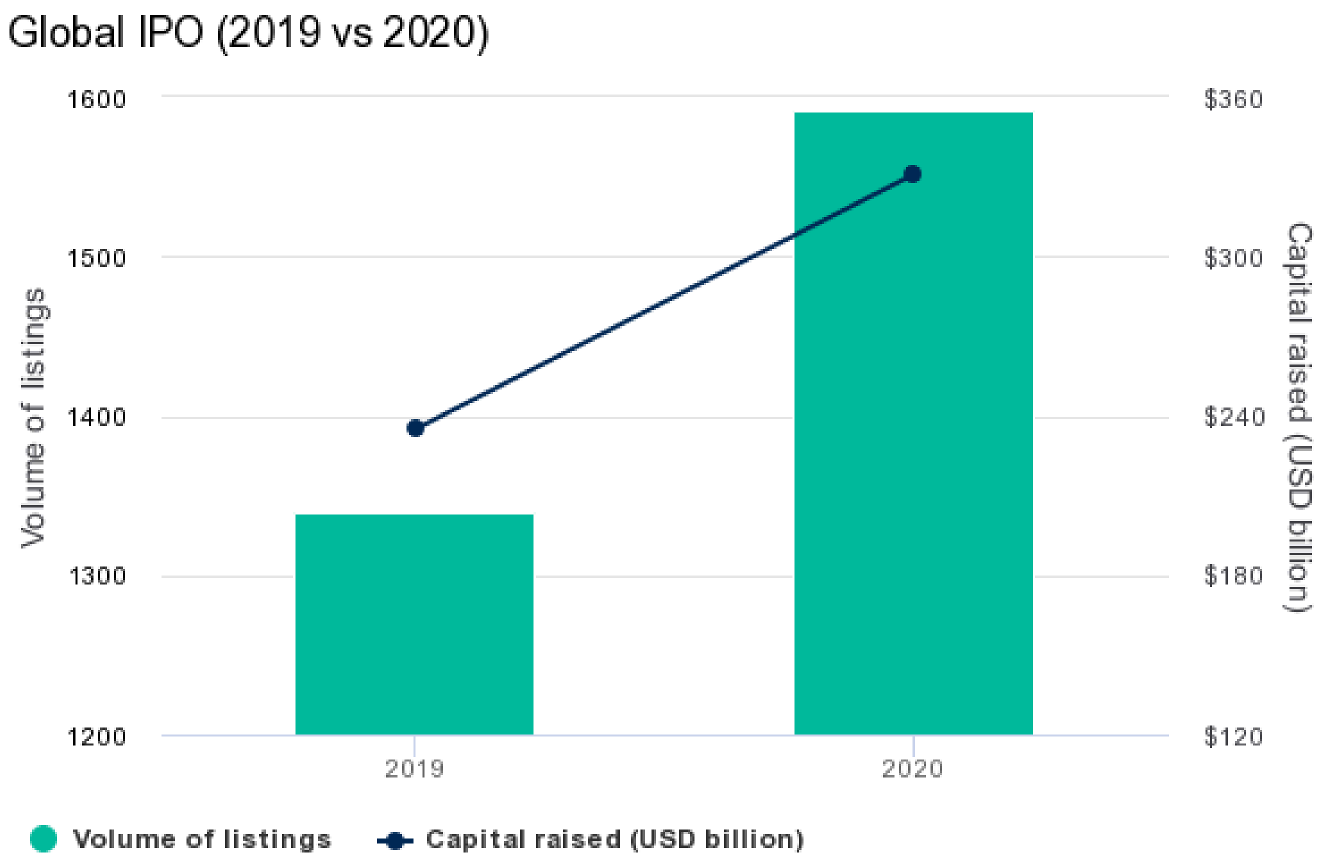

Figure 1

Of this, 76% of capital raised came from domestic IPOs, which also account for approximately 86% of listing volumes for 2020 (**Figures 2** and **3**).

Much of this activity is accounted for by a surge in US domestic listings, as well as in Mainland China:

- In the US, domestic listings raised 118% more capital in 2020 (USD 127 billion) than in 2019; volume of domestic listings also rose by 93% to 345 listings.
- In Mainland China, domestic listings raised 77% more capital in 2020 (USD 64 billion) than 2019; domestic listing volume rose 81% to 365 listings, up from 202 in 2019.

Figure 2

While domestic activity accounted for a large part of overall activity, cross-border listings also saw an increase in both volume and value, raising USD 80 billion from 231 listings, up 68% and 10% respectively, as larger deals came to market.

Of the top ten cross-border IPOs, all were from Mainland Chinese issuers, with Hong Kong the preferred listing venue of choice.

The largest deal in 2020 (so far) was Semiconductor Manufacturing International Corporation's debut on the Shanghai Stock Exchange's Nasdaq-style STAR Market in July, which raised nearly USD 8 billion. This is also Mainland China's largest domestic deal since China State Construction Engineering's 2009 listing and the fourth largest domestic IPO since 2005.

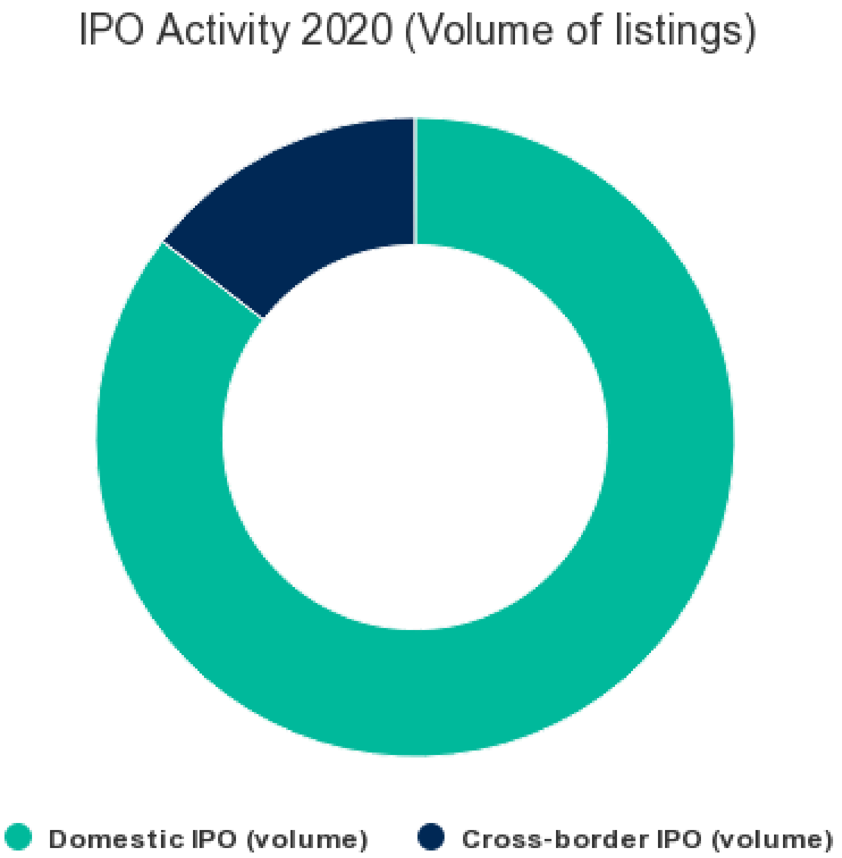

Figure 3

Q3 2020 saw a mega spike in the volume of listings and capital raised, which until this year, was somewhat unheard of **(Figure 4)**. Compared with Q2 2020, listings grew by 131% to 567 listings, which raised USD 138 billion (compared to USD 53 billion in Q2). Q4 2020 equally looks set to see an increase of 18% in IPO volume at 508 listings, compared to Q4 2019, rounding off a strong H2. This surge of activity can be attributed, in part, to high market liquidity as markets rebounded from the disruption brought on by COVID-19, encouraging the launch of the pent-up pipeline of IPOs.

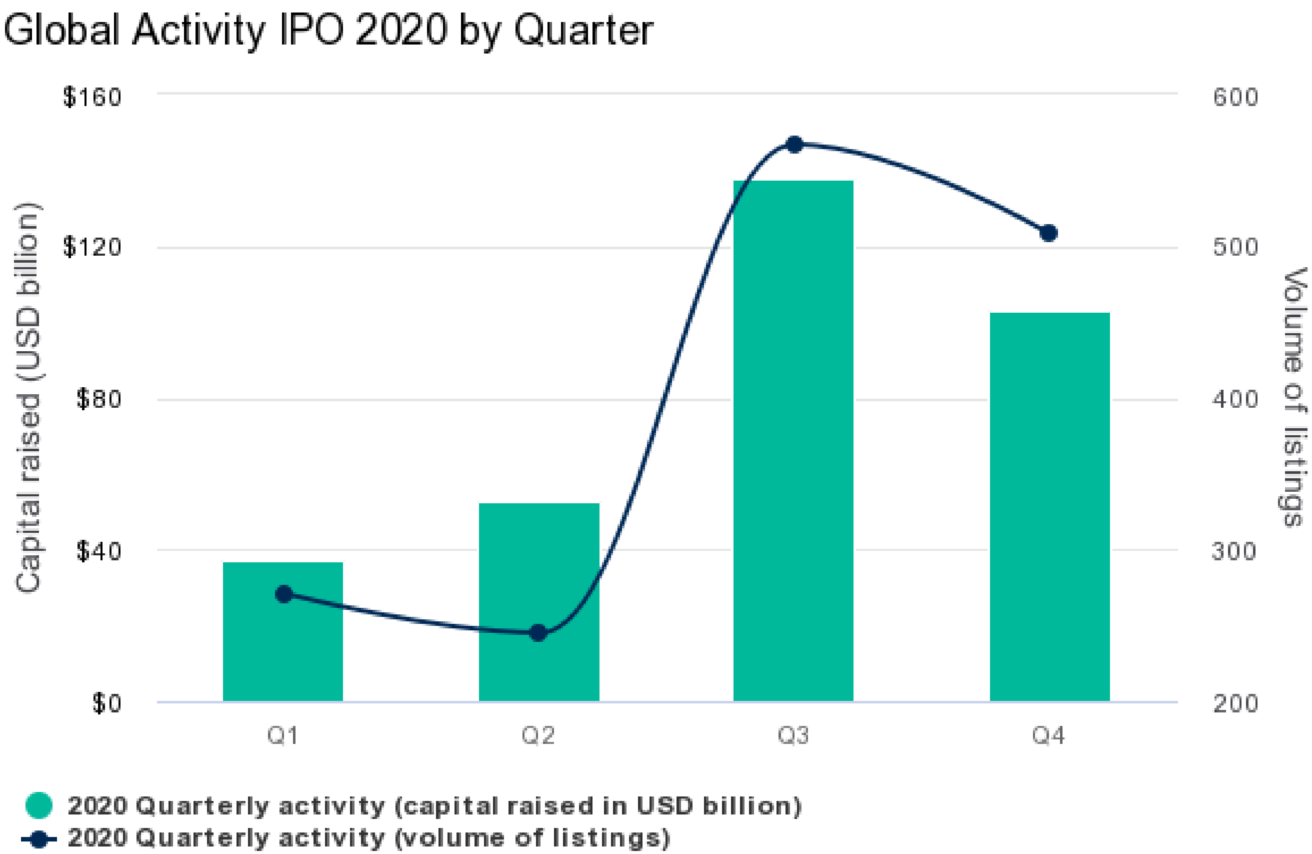

Figure 4

The view across industries

Top 5 Industries (Global IPOs)	Volume of Issues 2020	Capital raised (USD billion) 2020	% change in vol vs 2019	% change in capital raised vs 2019
Financials	360	108	37%	100%
Technology	257	55	13%	50%
Industrials	193	24	40%	129%
Healthcare	162	33	7%	57%
Consumer Products and Services	161	27	27%	128%

Across all IPOs, Financials grew by 37% in volume compared to 2019, raising USD 108 billion in 2020, across 360 listings. Financials also top both domestic and cross-border IPOs as the top industry according to the amount of capital raised.

Technology companies raised USD 55 billion in 2020 across 257 listings, due to increased activity in Asia Pacific, which saw a 13% increase in Technology listings in 2020 compared to 2019.

Industrials had the biggest growth year in terms of capital raising, increasing over 120% to raise USD 24 billion in 2020.

A large proportion of this activity can be attributed to an increase in listings in Asia Pacific, which saw 167 listings, up from 123 as compared to 2019.

Healthcare companies raised USD 33 billion in 2020 across 162 listings. Asia Pacific saw a 33% increase in volume of Healthcare IPOs as compared to 2019 and at 110 listings, drove the most activity for the industry in 2020.

PE- and VC-backed IPOs highlight industry and regional strengths

PE- and VC-backed IPOs experienced a surge in 2020, with 400 listings (17% increase from 2019), raising USD 96 billion (36% increase from 2019).

PE-backed IPOs raised USD 30 billion across 42 listings. A key industry to note for PE-backed IPOs is Technology, which topped the list at 10 listings, raising USD 7 billion in 2020 as compared to USD 5 billion in 2019.

North America accounted for the lion's share of activity, raising USD 20 billion across 27 listings in 2020, increasing from 2019. **(Figure 5)**.

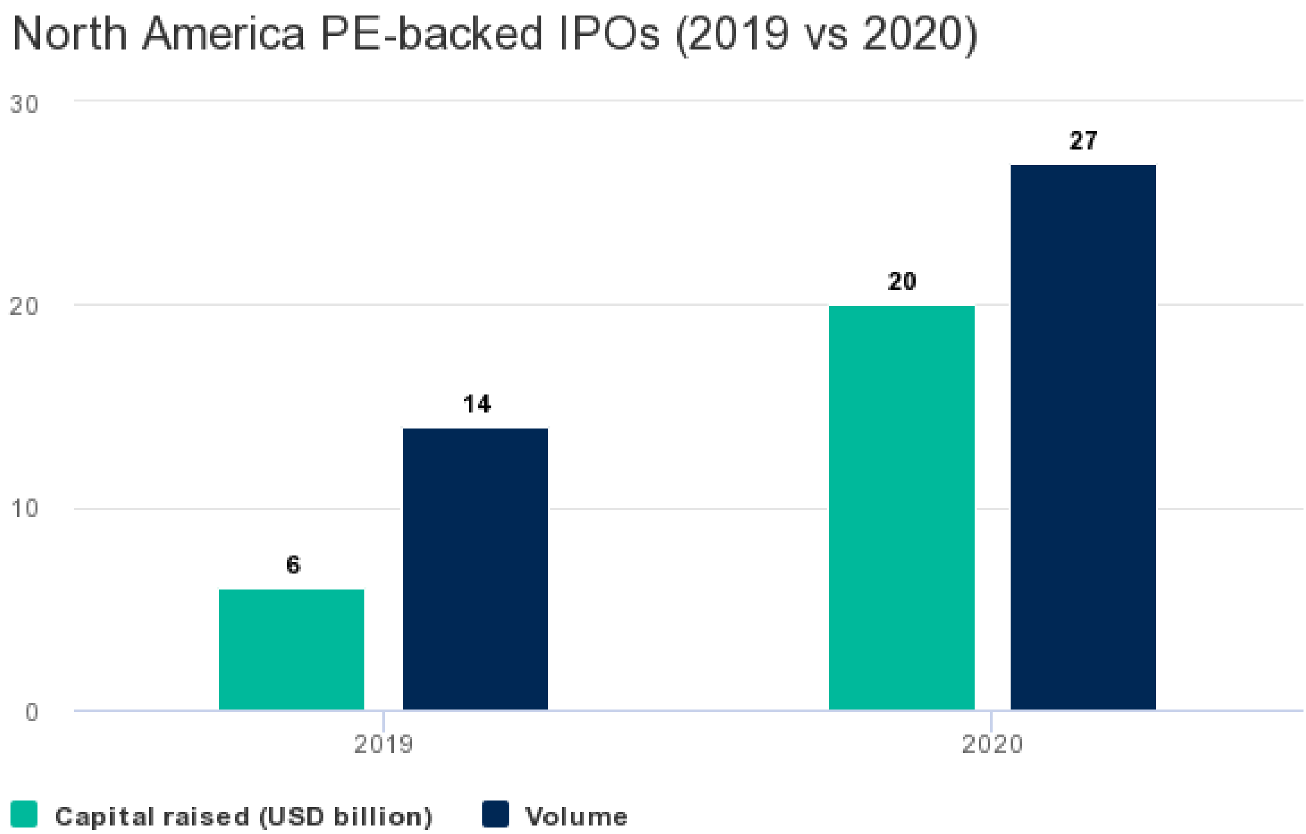

Figure 5

VC-backed IPOs raised USD 66 billion across 358 listings. The top industries were Technology with 92 listings, Industrials with 64 listings and Healthcare with 50 listings.

Asia Pacific, in particular Mainland China, monopolized activity levels with 244 of the region's listings coming from Mainland Chinese companies, primarily in the tech and industrials space. **(Figure 6)**.

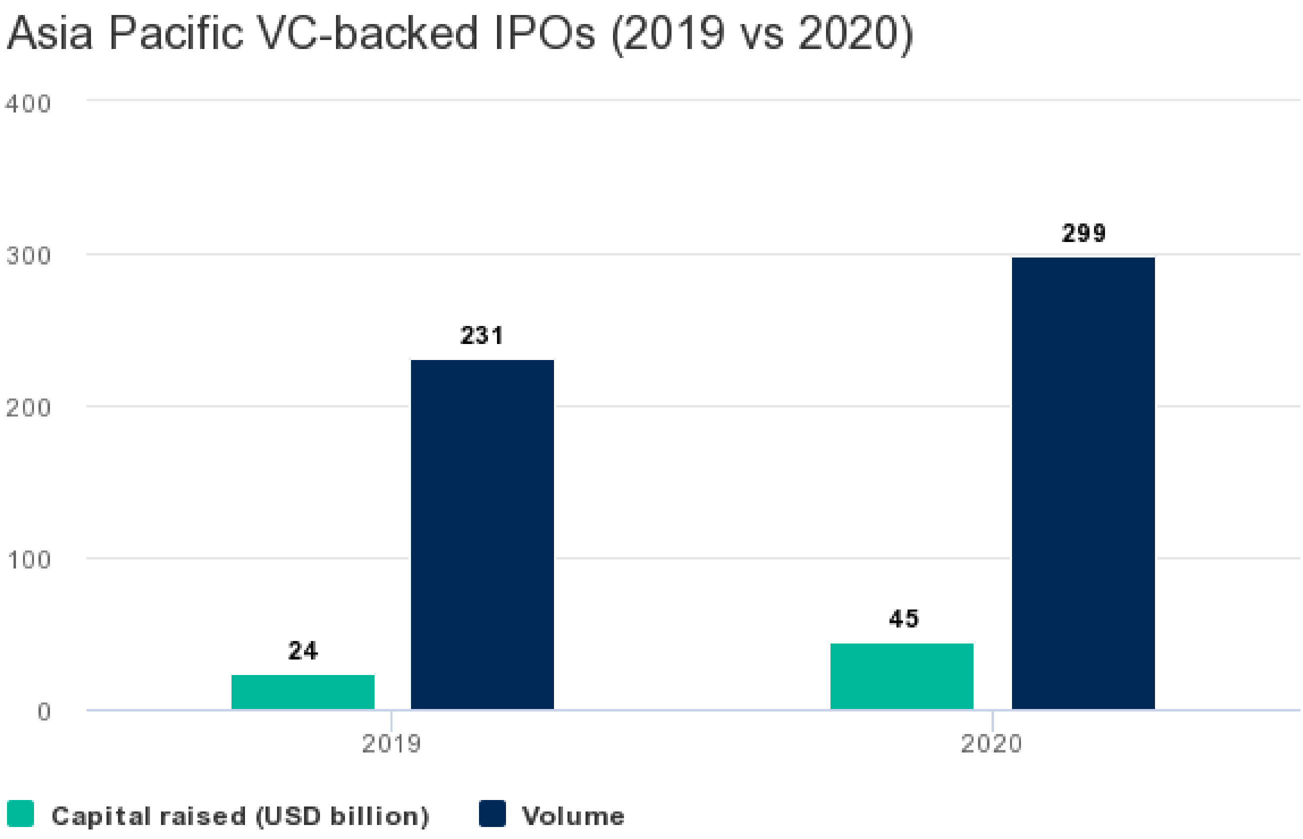

Figure 6

Overview of regions and exchanges

Mainland China and the US are shaping the global growth story

Unsurprisingly, Mainland China was the top issuing jurisdiction by volume, but US-based issuers are following closely — and making history **(Figure 7)**.

2020 saw the number of Mainland Chinese issues rise to 502 IPOs, raising over USD 127 billion, an 80% increase in value from 2019.

The US saw an 86% increase in the number of US companies going public, and, for the first time since 2014, the number of IPOs by US companies crossed the 200 mark to reach 353 issues, raising a total of USD 128 billion. US offerings were also typically larger in value.

Of this activity, over USD 127 billion was raised through domestic activity, which represents a 118% increase from 2019.

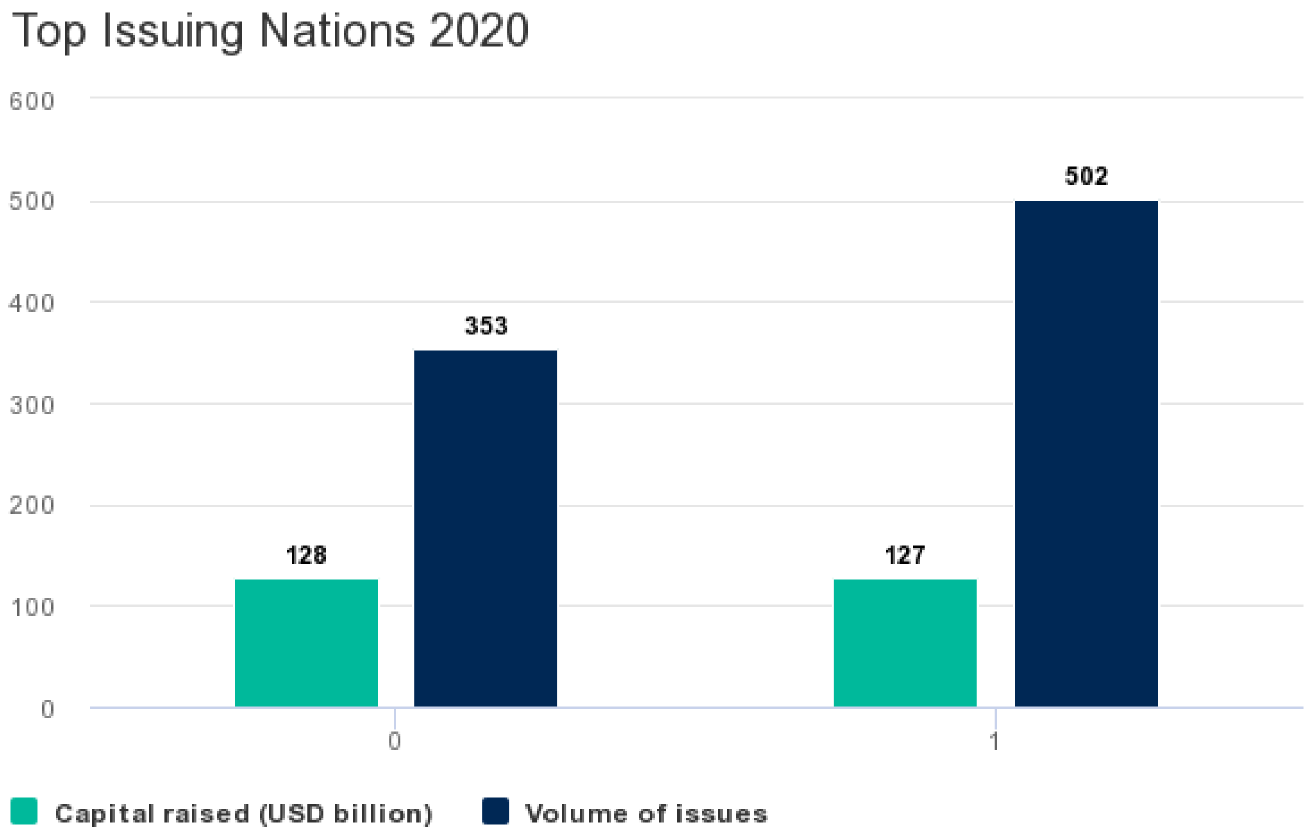

Figure 7

Top five exchanges by value (global IPOs)

Exchange	Capital raised in 2020 (USD billion)	Volume of issues 2020	% Growth volume vs 2019	% Growth in capital raised vs 2019
New York Stock Exchange	USD 79 billion	152	149%	149%
NASDAQ	USD 72 billion	272	50%	96%
Hong Kong (HKEx and HK GEM)	USD 48 billion	136	-15%	18%
Shanghai Stock Exchange	USD 47 billion	220	77%	74%
Shenzhen Stock Exchange (including ChiNext and SME)	USD 17 billion	145	86%	88%

Snapshot across the regions

Asia Pacific raised USD 139 billion across 937 listings; a 39% increase in capital raised from 2019.

The bulk of this activity (USD 91 billion) was raised through 811 domestic listings, representing a 33% increase in capital raised through domestic activity.

Latin America raised USD 9 billion in 2020, which shows a 159% growth in capital raised versus 2019. With 29 listings in 2020, the region records a 314% growth in volume of activity.

Growth in Brazil's IPO activity is also noteworthy. With 26 IPOs in 2020, raising USD 8 billion, this is the first time Brazil saw its number of IPOs reach the double digits since 2017 and its largest number since 2007. Overall activity growth was fuelled by a recovery in asset prices and a surging number of everyday investors buying into stocks. Brazilian big box retailer Grupo Mateus raised USD 824 million when it debuted on B3 in October 2020, coming close to being a mega IPO.

North America raised USD 154 billion in 2020, an 118% increase in value from 2019. With 497 listings, it also saw a 41% increase in volume of listings as compared with 2019.

Domestic activity accounted for USD 130 billion of capital raised across 411 listings, which makes for a 118% increase in capital raised from 2019. Cross-border activity grew 28% in volume versus 2019, and raised USD 25 billion, a 120% increase from 2019.

EMEA saw a hit to IPO activity, raising USD 29 billion across 128 listings. This represents a 51% drop in capital raised and 2% drop in volume from 2019.

Dampened domestic IPO activity was the cause of this decrease, with domestic listings falling to 112 (a 7% drop from 2019), raising USD 22 billion. Overall activity could not be buoyed even with the significant 46% increase in capital raised by cross-border IPOs (USD 7 billion).

What Will Shape the IPO Markets in 2021?

Insights from Baker McKenzie Capital Markets Experts

Global activity was very much dictated by COVID-19's dampening impact on H1 activity. As companies pivoted towards recovery in H2, IPO activity has swelled, and the outlook for 2021 is more buoyant. The outlook is set against a backdrop of key trends at the industry and regional level and fueled by the economic climate, knock-on effects of the pandemic and crucial political events such as Brexit and the incoming US administration.

These events have shaped market activity, listing rules and the behavior of financial sponsors (including PE and VC, among others), issuers and exchanges. Particularly, we explore 2020's leap in domestic activity, rise of alternate routes to listing, key changes to stock exchange and listing rules as well as the role of ESG in capital markets activity, as we prepare for what is anticipated to be an active 2021 landscape.

In this section, find key lessons on the following:

- How 2020 has shaped the landscape for the IPO markets in 2021.
- The key jurisdictions driving global trends in 2021.
- Why business stakeholders, boards, issuers, investors and banks should put ESG at the forefront of their decision-making.

Industry Insights

How has 2020 shaped the landscape for the IPO markets in 2021?

Steven Canner
Partner, New York

In looking at what 2021 holds for the IPO markets, the economic outlook will largely hinge on the distribution of a vaccine to COVID-19, heralding the official beginning of a return to "normalcy" and the full return of consumer confidence. As businesses successfully re-engineer their financial statements to an economic environment of recovery, we can expect to see capital raises for businesses to start expanding and investing in their growth and development, leading to a ripple effect of economic activity.

Until then, we will likely continue to see a proliferation of Special Purpose Acquisition Companies (SPACs) as well as businesses continuing to access the capital markets in conventional ways with going public, given that there remains a huge amount of dry powder in the private equity markets.

SPACs have historically been met with skepticism by the market and investors alike, but improved regulatory requirements and a number of recent high profile and successful acquisitions have helped to build the interest and momentum behind one of this year's biggest trends. While these regulatory requirements vary across geographies, the more risk-averse framework in the US is one of the primary reasons that almost all SPAC activity takes place in New York.

As interest rates remain low, we may also see a continued interest in raising debt capital.

"The strongest trend that I see is the proliferation of SPACs sponsored by reputable asset managers, family offices or known industry players. I expect to see a very significant number of de-SPAC transactions during 2021, as operating companies will seek to access the public capital markets in that particular fashion."
Steven Canner
Partner, New York

Key industries to watch in the year ahead

Next year may also see increased activity for companies in industries particularly hard hit during COVID-19, including hospitality and transportation. The approval of Pfizer's vaccine will no doubt see a rebound in the market activity and investor confidence of these industries. Indeed, we have recently seen the long-awaited Airbnb IPO, which raised USD 3.5 billion.

In looking at other levers and key industries for the year ahead, the life sciences industry will remain at the forefront. The delivery of a COVID-19 vaccine will be a major stimulus for the economy, as infrastructure will need to mobilize globally in order to effectively deliver, distribute and manufacture a vaccine widely. From this would spring the creation of jobs, financing activity, acquisitions and other infrastructure investment spend, as well a positive impact on investor psyche.

As the technology sector dovetails into life sciences, that too will continue to boom, as new and innovative technologies (particularly among biotech, fintech, edtech, software AI and health tech) continue to emerge — and be invested in — at an unprecedented pace, expedited by COVID-19 and the need to digitally innovate business operations to survive in a virtual environment. Indeed, tech and biopharma activity will be a continuously growing part of the US and Asia Pacific markets, in particular.

"The COVID-19 vaccine itself will change investor psyche, but the continued investment in scientific R&D will lead to the life sciences industry booming well beyond 2020."
Steven Canner
Partner, New York

Trend Watch — Venture Capital (VC) Activity and Investment

Derek Liu
Partner, San Francisco

COVID-19 has shaped VC investment activity in 2020. Venture-backed IPOs overall had an active year, with an increase in activity from Mainland Chinese issuers balanced slightly by a decrease from US issuers. Outside of IPOs, global venture capital investment has grown significantly. As of Q3 of 2020, VC investment across North America, Asia, and Europe reached USD 72 billion, a historic high.

Unsurprisingly, technology drew a significant amount of that investment, as did healthcare and life sciences, particularly areas such as edtech, fintech, biotech, software and AI — this was largely driven by the impact of COVID-19 and the need to both innovate and digitize at rapid pace.

In 2021 and beyond, the expectation is that we will see an increase in VC-backed IPOs globally. We expect this based on the uptick we saw in the latter half of 2020, as well as the significant increase in VC investment in companies that will likely look to exit over the next few years. We expect technology and healthcare solutions will continue to be the industries that benefit the most from this trend.

Regional Trends and Stock Exchange Developments For the Year Ahead

What are some of the key jurisdictions driving global trends in 2021?

Spotlight on Asia Pacific

Ivy Wong
Asia Pacific Chair of Capital Markets

A move toward recovery in the second half of 2020
During the first half of 2020, we saw that while equity capital markets (ECM) activity dipped, debt capital markets (DCM) activity increased as companies looked to raise funds as quickly as possible to cope with the impact of the pandemic. While there has been a general dip in activity in main APAC markets due to COVID-19, there is an expectation that markets will continue to recover, as we have seen since Q3 2020 across key exchanges in the region. This increased activity reflects a delayed pipeline, with many issuers deferring listings due to the significant market volatility brought about by COVID-19 in the first half of the year, and focusing instead on securing further private investment to strengthen balance sheets and position themselves financially to weather the pandemic storm.

A growth in domestic activity in Southeast Asia
In addition to Mainland Chinese exchanges, we have also seen growth in domestic activity in Southeast Asian markets such as Malaysia and Thailand as a result of COVID-19. Companies see opportunities to expand in the domestic space and are attracted by the convenience of listing closer to home — removing additional barriers that come with cross-border offerings and related COVID-19 delays. With a few exceptions, such growth relates mostly to smaller listings, as mega deals and tech-focused companies still look to more established listing locations such as Hong Kong (which has seen a robust Q3 2020), London, or the US.

Despite an overall decline in offerings on the Hong Kong Stock Exchange (HKEX) in 2020, it still remains a popular listing location for certain issuers, particularly larger listings (for both primary and secondary), companies with weighted voting rights (WVR) and pre-revenue biotech companies following the 2018 regulatory changes. While the introduction of the Shanghai Stock Exchange's STAR Market offers Mainland Chinese issuers another listing venue to choose from, and aims to lure some of the tech and biotech listings that may otherwise have looked to Hong Kong, we do not currently expect it to have a major impact on Hong Kong as the listing venue of choice for larger and higher profile IPOs and secondaries, and for issuers seeking to expand overseas and raise offshore funds — as evidenced by the 18% increase in the value of capital raising over the year, despite a 15% decrease in the volume of offerings.

Mainland China has continued to remodel its capital markets offering and, this year, streamlined the process for companies wishing to list on Shenzhen's ChiNext board by introducing a new registration-based system that — similarly to the STAR Market — allows IPO pricing to be fully determined by the market and further strengthens the appeal of listing domestically.

Legal updates — Watch this space

The Holding Foreign Companies Accountable Act

The Holding Foreign Companies Accountable Act that was approved by the US Senate in May 2020, has now passed through the House of Representatives and clears the measure for the President to sign. The Act is aimed at enforcing certain US auditing requirements for foreign companies listed in the US. Those who do not meet the requirements over the course of three consecutive years will ultimately be forced to delist from US exchanges. In advance of this bill passing into law, we saw some pre-emptive strategic activity from larger US-listed Mainland Chinese companies, such as NetEase and JD.com, who aimed to mitigate risk by conducting secondary listings in Hong Kong, both raising around USD 3 billion. New Mainland Chinese issuers seem somewhat undeterred so far, raising 235% more capital on US exchanges this year, than in 2019.

With this new law on the horizon, we can expect existing US-listed Mainland Chinese companies and those preparing to go public to take greater interest in alternative international listing venues and dual-listings. With recent and ongoing regulatory changes by the Hong Kong Stock Exchange aimed at making it easier for tech and biotech companies to list closer to home, as well as revisions on corporate Weighted Voting Rights (WVR) beneficiaries, Hong Kong could become an attractive option. Equally, the Shanghai-London Stock Connect delivered a number of successful IPOs this year, and London could be set for an increase in Mainland Chinese company listings from those wishing to tap international investor pools.

Corporate WVR in Hong Kong

The HKEX recently published its conclusions to its consultation launched in January 2020 on corporate WVR beneficiaries. As a result, certain qualifying Greater China issuers that are controlled by corporate WVR beneficiaries and have a primary listing on the London Stock Exchange, NYSE or Nasdaq will have the option to pursue a secondary listing in Hong Kong, which may attract certain tech companies that have such corporate structures. The HKEX also revealed plans to consult on further revisions to the listing rules to normalize the eligibility requirements for Greater China issuers that do not have WVR structures and seek a secondary listing under Chapter 19C for "innovative" companies. As a result, we may see further changes next year to the listing regime designed to encourage companies to list in Hong Kong.

Spotlight on the Americas: US and Latin America

US: From a downturn to record-making IPO activity

Chris Bartoli
North America Chair of Capital Markets

As companies dealt with economic uncertainty and valuation concerns due to the COVID-19 pandemic, IPO activity during the first half of 2020 was lackluster. During the third quarter of the year, however, there was a significant uptick in IPO activity, reflective of the backlog of IPO-ready companies, the substantial liquidity and support provided by the Federal Reserve and the resulting rebound in the US equity markets. Despite the slow start, 2020 has seen record capital raising and the highest number of US companies going public in 20 years, which includes a significant rise in the number of SPACs, as sponsor-backed companies sought to raise capital and identify a target by availing itself of this more streamlined "back-door" process to an IPO.

The pandemic has confirmed the importance of technology in our daily lives, and as a result, technology companies have been key contributors to the historic rise in domestic IPO volumes in the US.

Additionally, there is renewed confidence by "epicenter" companies more directly affected by the pandemic that raised capital in the private markets to stabilize themselves. Airbnb, for example, raised USD 2 billion in equity and debt from PE firms to help buoy the company through the substantial disruption to the hospitality and travel business brought about by COVID-19. Since then, as markets have recovered and with the first COVID-19 vaccine approved, Airbnb's recent IPO listing on NASDAQ saw shares more than doubling at debut, which put the company's valuation at approximately USD 100 billion, a substantial increase from its private valuation in the spring of 2020.

With a new US administration taking office in January 2021, we may also see more of a progressive approach to regulations affecting the capital markets, including in areas such as ESG, which continues to be an important area of focus for US and foreign investors.

"It's an ideal time for private technology companies to go public given current market valuations, and there's also a renewed confidence from other 'epicenter' companies more directly affected by the pandemic, as they begin to see a light at the end of the tunnel."
Chris Bartoli
North America Chair of Capital Markets

Legal updates — Watch this space

Capital Raising in Direct Listings

In August 2020, the US Securities and Exchange Commission (SEC) approved a proposal from the NYSE to permit capital raising for direct listings, which historically have been prohibited. This approval is expected to drive an increased interest in direct listings from a broader range of companies, including smaller and earlier-stage companies who typically rely on raising capital for growth, innovation and expansion, and which had previously discounted a direct listing as an alternative route to the public markets. The SEC's approval was swiftly followed by a similar proposal from NASDAQ.

Within a matter of days, however, this approval order was stayed by the SEC in response to a petition to review the order and the policy issues within it from the Council of Institutional Investors (CII), who claimed that the rule reduces the adequacy of investor protections. This review is still underway and the outcome remains to be seen, but if the proposals ultimately take effect, there could be a significant shift in the IPO landscape in the future, as routes to going public become increasingly diversified and offer more alternatives to companies.

Holding Foreign Companies Accountable Act passes through House of Representatives

On December 2, 2020, the United States House of Representatives passed the Holding Foreign Companies Accountable Act (Act), following the Senate's approval in May 2020. The Act now moves to the President for signature, which he is expected to sign in the coming weeks. If the President signs the Act, it will become US law.

The Act would require greater transparency in financial information from Mainland China-based issuers to US investors and US authorities, including the Public Company Accounting Oversight Board (PCAOB), which oversees the conduct of independent auditors. Under Mainland China law, auditors are prohibited from transferring certain company financial information outside of Mainland China. Under the Act, foreign issuers will be required to comply with US audit and regulatory standards and disclose the issuers' ties to foreign governments, including the Chinese Communist Party or risk delisting from US exchanges.

Under the Act, foreign listed issuers that have retained accounting firms that the PCAOB cannot fully investigate must (1) submit to the US SEC documents certifying that the issuer is not owned or controlled by a government entity and (2) make certain disclosures in all reports with the SEC. These disclosures include the percentage of the issuer's shares that are owned by a government entity, whether a government entity has a controlling financial interest in the issuer, whether the issuer's board of directors includes any officials of the Chinese Communist Party and whether the issuer's articles of incorporation contain any charter of the Chinese Communist Party. Issuers that do not retain auditors that comply with US audit and regulatory standards, including PCAOB oversight and inspections, for three consecutive years will be prohibited from listing or otherwise trading their shares in US markets, and any future failure after compliance and re-instatement will result in a five-year prohibition. Therefore, the Act could result in the delisting of foreign issuers, including Mainland China-based issuers, who do not comply with the Act for three consecutive years once the Act becomes law. We may also see an increase in alternative international listing venues for primary and secondary issues going forward, namely London and Hong Kong.

Latin America: Finding market success and recovery from a decade of instability

Pablo Berckholtz
LatAm Chair of Capital Markets

Latin America has seen many of its countries undergo massive political changes and turmoil over the last decade. However, despite much political instability, many Latin American governments have had the foresight to maintain their economic views and goals. The region's political instability has also affected the equity markets, making them very opportunistic.

The result is a number of companies that have positioned themselves to grow nationally, regionally or globally to take advantage of market opportunities independent of the political and economic climate of their respective countries.

Brazil's double-digit IPOs

Brazil and its sizeable economy, tells a different story from the rest of Latin America. With 26 IPOs debuting in 2020, this is the first time Brazil saw its number of IPOs reach the double digits since 2017 and its largest number since 2007. The pickup in activity in Brazil can be traced back to policy changes, economic growth and reflective of a pipeline of transactions that had, until now, been held up.
Corruption scandals in the private sector posed difficulties for companies looking to raise capital; however, as the Brazilian government continues to focus on recovering from such scandals, it has managed to return confidence for companies looking to tap into the equity markets.
As is the case with the rest of Latin America, there is a dichotomy between the political situation in each of these countries and the economy, which that has allowed companies to grow in these markets until they can raise equity internationally.

Spotlight on EMEA

Joakim Falkner, EMEA Chair of Capital Markets and ***Helen Bradley, Global Chair of Capital Markets***

IPO activity takes a tumble, as secondary offerings soar

IPO activity was down across the board in EMEA and while other markets have seen record-breaking rebound performances in the second half of 2020, with certain exceptions, the pace of EMEA IPO activity remains subdued. However, this level of activity does not extend to the broader equity markets where Europe, and London in particular, have seen an explosion of secondary offerings. Secondaries on the London Stock Exchange alone have raised USD 44 billion year-to-date, up 60% on last year and almost half of which was generated in Q2, largely from UK issuers.

While much of this secondary activity can be attributed to the need for listed companies to raise additional capital to strengthen balance sheets in the face of a turbulent financial period caused by COVID-19, some activity has been more opportunistic in nature, with a number of companies taking advantage of the relaxation of the rules around capital raising to raise funds for strategic M&A. Added to this were the unforeseen speed and efficiency benefits resulting from the shift in transaction structure that COVID-19 brought - benefits that enabled multiple transactions to be marketed via virtual roadshows in the same timeframe as a single deal would previously have been conducted through physical roadshows.

An interesting trend on the secondary piece, and indeed more broadly across global equity, is the increase in financial sponsor involvement. We are seeing financial sponsors become much more active in public market transactions, with an increasing willingness to become investors in listed companies and to look at other structures, such as SPACs, in considering how to deploy capital. We expect to see more of this as we move into 2021.

In the face of a downturn in the 2020 IPO market, one area of Europe that continued to outperform throughout the year was the Nordics, particularly within the tech space, benefitting from an especially strong and well-functioning capital markets structure. There has also been an increased interest in dual-listings from Nordic issuers, New York being the international venue of choice, and we can expect to see an uptick in the number of dual-listings coming not only from the Nordics, but wider Europe.

Looking ahead, we envision an increase in both domestic and cross-border IPOs across Europe as we move into 2021, particularly in London and the Nordics where we are already seeing a robust pipeline of offerings. The Shanghai-London Stock Connect delivered three of EMEA's largest listings this year, and will likely spark further interest from Mainland Chinese issuers considering alternative international listing venues to New York, given the recent passing by the House of Representatives of The Holding Foreign Companies Accountable Act. Financial sponsor backed exits, notably within tech and biopharma, should also see an increase in 2021 and beyond, given the recent and significant levels of investment. Pending listing rule changes within the UK (see 'Legal Update') could further entice these typically larger tech and biopharma offerings from New York, and even Hong Kong venues.

Legal Update — Watch this space

London sets it sights on tech

In November of 2020 the UK government announced that it will review the current premium listings rules for IPOs, as they aim to make the post-Brexit UK a more appealing listing jurisdiction for tech unicorns and other high-growth companies. Some of the tougher listing requirements under review include the free float requirement and dual-class share structures for premium listings. The current free float requirement on the London Stock Exchange is 25%, but with a lower threshold of 10-15%, companies would retain a greater level of control after listing. Similarly, permitting listings with dual-class share structures would allow founders and other pre-IPO stakeholders to retain their voting control. The retention of this control will be crucial to these high-growth companies, as they continue to focus on their longer-term growth and strategy without the worry of short-term deliverables or activism.

While companies with dual-class share structures can already list on the AIM and Standard Segment of the London Stock Exchange, this is typically an unattractive option, as it does not permit inclusion on the FTSE indices. As such, New York sees the lion's share of these types of offerings, with Hong Kong also gaining market share since the revisions to their dual-class share structure listing rules in 2018. Should the UK introduce amendments to the existing rules, we can expect to see London gain an increasing share of listings, particularly from tech companies and Mainland Chinese companies, wishing to tap the international investor pool outside of the US through an IPO or secondary listing.

The Importance of ESG to the Long-term Growth of Corporates

Why should business stakeholders, boards, issuers, investors and banks put ESG at the forefront of their decision making?

Adam Farlow

Head of ESG Debt and Equity

No matter where you are in the world or what industry you operate in, ESG has become one of the hottest topics for businesses, their boards, their customers and their employees. The dial has shifted; ESG isn't just about "doing the right thing" anymore. While in previous years, some viewed the inclusion of ESG elements to be at the expense of returns and efficiency, among other things, this has rightly shifted to viewing ESG strategy as a prerequisite to business success.

"We are firmly in the age of stakeholder capitalism, and for companies real change will come when the stakeholder voice is seen as a normal part of the decision-making process of the board. Long-term value maximization (rather than simply short-term profit generation) is the currency of the moment. It is now widely accepted that there is no inherent tension between creating value and serving the interests of employees, suppliers, customers, creditors, communities and the environment. A clear corporate purpose and good stakeholder governance, which underlie effective ESG strategies, are what boards must pursue."

Beatriz Araujo

Partner, London and Fellow to the World Economic Forum's Platform on Shaping the Future of Investing

There is strong evidence as to why this is a watershed moment. Firms with strong ESG credentials typically record stronger financial performances and higher valuations. There has been significant research that evidences a positive correlation between material ESG factors and increased return on invested capital (ROIC), return on equity (ROE) and long-term stock and operational performance. For example, Bank of America released research that shows that companies which rank highest in ESG criteria are likely to experience less volatile stock prices and better returns on equity than others. Harvard Business School also published research on the positive correlation between sustainability efforts and stock performance and margins, citing increased business value. These are just two of many, many publications that come to similar conclusions.

Investors are increasingly demanding ESG to be factored into the business's governance structures, long-term plans and operations. We see that in the context of rising social unrest, natural disasters and the COVID-19 pandemic, investors are exhibiting a never-before-seen interest in ESG funds.

BlackRock, the world's largest asset manager, made its stance on ESG priorities apparent as CEO Larry Fink wrote in his 2020 letter to CEOs, plans to exit "investments that present a high sustainability-related risk" and called for companies to publish a disclosure in line with industry-specific SASB guidelines, among other initiatives aimed at placing sustainability at the center of BlackRock's investment approach.

But this transition is not without its challenges. One key challenge on the horizon is the onslaught of uneven, and sometimes contradictory, ESG regulation across the globe. Europe is well ahead of the game in terms of the development of ESG regulations, which will help to mitigate risk and offer investors a degree of confidence in their investment choices. The EU's suite of ESG regulations will require extensive disclosure requirements, and while these requirements can be an additional burden on companies on top of existing reporting requirements, they provide a necessary layer of protection, reliability and confidence for investors. In terms of ESG regulation, we also see that Asia is catching up — with HKEX ESG listing rules, announced in 2019, taking effect in July of this year.

> "The new HKEX ESG listing rules, which came into effect in July 2020, shows policymaking that is responsive to market sentiment. We see many PE firms adopting internal ESG policies, where a certain percentage of their portfolio constitutes responsible initiatives such as green bonds or green initiatives. ESG is also playing a bigger role in pre-IPO proceedings, such as disclosures and in building prospectuses."
> **Ivy Wong**
> **Asia Pacific Chair of Capital Markets**

Despite the varied states of development across regions, 2021 will see this trend continue to develop in its importance to corporates and their boards, banks and investors, given the financial benefits that have been proven to result from incorporating strong ESG criteria into the operational and strategic plans of corporates and banks.

Accordingly, ESG will continue to reshape the market, investor sentiment and how companies do business globally through 2021 and beyond.

Conclusion

Buoyant activity on the 2020 IPO market reflects the global momentum of recovery. As news of vaccine approvals continues to stoke investor confidence, there is an expectation that 2021 will continue to see further growth across key jurisdictions and exchanges, particularly in the tech, and the healthcare and life sciences sectors.

Key legal trends should remain top of mind; changes to indices, listing rules and the rise of ESG consciousness will contribute to the need for robust legal advice during the pre-IPO and listing phases. Even as business complexity increases, 2021 will see the growth of opportunities in terms of listing locations, especially due to new indexes and dual-class listing rules. Strategic consideration should also extend to the rise of alternate routes to listing, VC-backed activity and industry hot spots; these also signal continued growth of activity in the IPO market in the coming year.

As your company prepares for the new year ahead, our global team of experts are here to support you in navigating the next stage of business recovery and renewal in 2021.

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Our Resilience, Recovery & Renewal Model

The Resilience, Recovery & Renewal Model

Our Resilience, Recovery & Renewal model is helping organizations navigate the business and legal impact of the COVID-19 pandemic. While most businesses will pass through all three phases of the model, the phases themselves are non-linear and may recur or overlap, particularly for those with global operations. Wherever you are in your response to the pandemic, we will help you with the services and resources you need. Visit our Resilience, Recovery & Renewal Roadmap to Stability hub for more information. Also, visit our 3R Resource Center for the latest legal and regulatory updates from around the world.

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