"A very public problem made even worse by Coronavirus"

Rosh Wijayarathna
MANAGING DIRECTOR
HEAD OF CORPORATE FINANCE
SVB EMEA

For fast-growth, innovation businesses, the appeal of UK public listings had already started to wane by the end of 2019. While IPOs were long considered the ultimate end-game for scale-ups, the appetite for public listings was drying up and set to make 2020 a year of a fewer blockbuster listings potentially. This was in part due to the recent poor performance of public markets. However, despite Coronavirus and its impact on markets as we've seen, the growing influx of private equity and corporate cash piles are also having a significant role when it comes to offering an alternative, giving founders more options as to how they fund different stages of their growth. This now leaves business leaders with the opportunity to shun traditional funding routes. Instead, they are free to create bespoke strategies about how to deploy public and private funding to their best advantage as and when business gets back to normal after COVID19.

It's the economy, stupid. Or is it?

There is no denying that 2019 was a poor year for public listings in the UK. The IPO count failed to break double figures by April 2019 for the first time since the 2012 European debt crisis. This trend continued throughout the year; the third quarter saw the smallest number of initial public offerings of the past decade.

The reason for this, according to EY, was the impact of political uncertainty and a wider global economic slowdown. While I agree that this has led to companies being more cautious about public listings, we must remember that there are other forces at play. In the UK, the fall out of Neil Woodford's funds had a ripple effect across public market investors; add this to the political uncertainty we saw in 2019 and the impact of MIFID2 driving less coverage of smaller UK stocks, has created an uncertain IPO environment. Even in the US where we've seen record valuations at IPO, the spotlight is shining brightly on the typical VC model of 'growth at all costs' versus profitability. One of the most prominent US examples was Uber where its share prices dropped over seven per cent on its first day of trading, unleashing a media frenzy and claims the company was overvalued. Later in the year, WeWork's failed IPO caused another destructive wave of negative press. ▶

Uber saw the effect of moving from VC to an uncertain IPO environment when their shares dropped over seven per cent on its first day of trading

> "The spotlight is shining brightly on the typical VC model of 'growth at all costs' versus profitability."

The impact of this speculation and publicity does not stop after the IPO; publicly listed businesses are very much under the media microscope. They are, after all, "public". Many founders have tired of the continual scrutiny and market volatility that comes with a public listing. As we have seen, a crisis can hit businesses at their core with a constant negative news cycle and share prices decline, even when businesses are performing well against wider metrics. This forces founders to become more incentivised to look at their funding options. And, in the current market, many businesses are looking to their investors and lenders to boost their balance sheets and provide a 12-18 month runway extension of capital, ideally outside of the spotlight of the public eye.

Private lives

Private funding is still booming in the UK but the question is now how much of this will go towards supporting existing portfolio companies. In the space of a single year according to the TechNation 2020 Report, the UK has shattered all records for 2019, with investment in innovation businesses soaring by 44 per cent to over £10 billion. More than France and Germany combined.

We've also seen records being shattered when it comes to deal sizes. In May 2019, Deliveroo raised $575m from private investors led by Amazon; the most it has raised in a single round. This trend can also be seen in the UK fintech sector where Revolut, Transferwise, World Remit, Oak North, and Monzo all raised significant rounds at billion-dollar-plus valuations.

The ready availability of private capital means that some founders are being inundated with offers and we expect this to continue with successful

Image: bbcgoodfood.com

Recipe box startup Gousto is an example of startups being inundated with funding offers, thanks to the ready availability of private capital

"Public markets are where businesses need to be when they are looking to go from scaling to a major acceleration in growth and product development."

businesses that weather the Covid-19 storm. Timo Boldt, founder of Gousto said, "We were oversubscribed with our last funding round and it meant we could choose our investors. We no longer have to rely on the public markets."

With the initial triaging of existing portfolio companies over, private equity is waiting in the wings to deploy it's $2tn of dry powder. We have already seen 2019 triple the number of PE led AIM acquisitions from the previous year according to BDO LLP, and this trend is only set to continue, highlighted by Silverlake's opportunistic investments in AirBnB and Expedia.

Flip, flop and fly

The IPO market has rapidly fizzled out, and the M&A market could see hits as well, despite this investment figures were robust in Q1 2020. We expect public markets to continue to play an important role once the economy is back to normal. For organisations in regulated industries, such as financial services, IPOs will remain a strategically important option. Here, scale-up

Image: venturebeat.com

Deliveroo: a record-breaker when it comes to private funding businesses always need to consider public funding because of the credibility it bestows. These organisations will need to earn public trust even more so in the future, and this will come with an increased level of governance and transparency that is automatically associated with being publicly traded.

Finally, it's also worth noting that many businesses are now also willing to remain in a holding pattern when it comes to IPOs. With private capital available in abundance, they are choosing to IPO later, once they have scaled and are better able to weather the storm of public attention. This is certainly true of the US market where a wave of venture capital-backed businesses such as Zoom and Crowdstrike are receiving a warm reception from investors when they go public. In fact, in 2019 US valuations for IPOs are at an all-time high of 11x revenue, compared to the 3x revenue of 2010; highlighting that extra value that can be derived from choosing to stay private for longer. Turning to the UK markets, we should see them begin to mirror what is happening in the US; companies will list when they get to the right size and scale, where they have good coverage from brokers and can start to attract decent institutional investors.

New world – new approach

What is clear as we navigate the current environment with Coronavirus is that traditional funding routes have seen major disruption. IPOs are currently off the table but are no longer the only end game, but their importance is far from diminishing. Instead, their role has evolved in an era where founders have the opportunities to create bespoke strategies about how and when to deploy public and private funding to their best advantage. It is a new paradigm and one that may seem complex to navigate. However, there are partners available to help guide your business through this journey in addition to introducing founders to the right forms of finance option and investors at each stage of your growth. In short, take your time, take advice and choose wisely.

US valuations for IPOs are at an all-time high of 12x revenue, and the UK should follow the same steps

> "The role of IPOs has evolved in an era where founders have the opportunity to create bespoke strategies about how and when to deploy public and private funding to their best advantage."

Visa is a great example of a corporation innovating through acquisition

The future is still bright for public listings in the UK

Silicon Valley Bank UK Limited is registered in England and Wales at Alphabeta, 14-18 Finsbury Square, London EC2A 1BR, UK (Company Number 12546585). Silicon Valley Bank UK Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority (Firm Reference Number 543146).