

New research shows UK public markets in decline, as listed-life loses appeal

*Investors say appetite for private companies to list in UK has decreased as direct result of MiFID II
75% of quoted companies concerned about negative impact of de-equitisation on UK stock markets*

27 January 2020: Following a rollercoaster year for the UK capital markets, defined by unrelenting political and investor uncertainty, burdensome regulatory requirements and the weakest IPO market in a decade, a new survey of fund managers and mid to small-sized quoted companies reveals that the UK public markets have started the new year in a worrying state of decline.

According to the survey commissioned by broker Peel Hunt and the Quoted Company Alliance (QCA), 64% of investors believe that the appetite for private companies to list on the UK public markets has decreased over the past year as a direct result of MiFID II regulatory demands.

60% of companies blamed burdensome listing requirements as a key driver behind the shrinking of the UK public markets, while 57% of investors attributed this decline to the availability of cheaper capital from venture capital and private equity, as well as persistently low interest rates increasing the appeal of debt financing over equities.

Growing de-equitisation crisis

In 2019, the London Stock Exchange endured its quietest year since 2009 with just 36 companies listing their shares, while the number of companies on AIM ended the year at a 15-year low, as the trend towards de-equitisation (where the amount of equity circulating around the market shrinks) accelerated.

According to the QCA/Peel Hunt Mid and Small Cap Survey, 75% of quoted companies and fund managers raised concerns that this growing de-equitisation trend is having a detrimental impact on the UK stock markets. Respondents warned that increasing de-equitisation – resulting from the large volume of share buy-backs, cash acquisitions and take-privates last year, alongside the declining IPO market - has reduced liquidity in the UK capital markets and concentrated investor risk across a declining pool of listed securities.

To address this worrying trend, investors and corporates alike have called on the UK Government to take decisive action to encourage more private companies to return to the UK's public markets. 68% of quoted companies said the Government should reduce regulation for IPOs and listed firms, while 41% of investors believe that reducing listing costs and allowing dividends to be tax deductible would improve the appeal of listed-life.

Two-thirds (62%) of investors and 55% of companies also believe the UK Government should encourage a US-style re-weighting of pensions toward equities and away from bonds, to incentivise more pension funds to invest in equities, thereby improving overall market liquidity and encouraging more companies to list in the UK.

Steven Fine, Chief Executive of Peel Hunt, said:

“As one decade draws to a close and another begins, the public markets find themselves in a state of flux, on a scale we haven't seen since the years directly following the financial crash of 2008. After years of political instability, consistently low interest rates, major regulatory change and sustained Brexit uncertainty, 2019 marked a worrying turning point in which the UK capital markets ceased to function as they were designed to.

“The IPO market ground to a halt, as declining valuations, Brexit extensions, the high-profile Woodford scandal and the unintended consequences of MiFID II knocked investor confidence and made many small to medium sized businesses question their rationale for being listed at all.

“We also saw huge sums of private capital flood the market, as venture capital and private equity firms went on the acquisition trail, while swathes of listed companies bought back stock, removing shares from the public markets - or taking the decision to come off the market altogether - as de-equitisation gathered momentum.

“This escalating de-equitisation crisis is particularly concerning as we approach Britain’s formal exit from the EU as, without efficient, liquid and well-stocked public markets, the UK’s standing as a global financial centre in a post-Brexit world could well be at risk.”

Tim Ward, Chief Executive of the Quoted Companies Alliance, added:

“The sun set on the UK’s public equity markets in 2019. The number of IPOs and companies leaving the markets in 2019 was stark and action is needed from UK policymakers and regulators to reverse the de-equitisation trend in 2020.

“Lack of liquidity in smaller company stocks has been a long-standing issue, but it deteriorated last year. A new proportionate approach to regulation needs to be taken as it makes no sense that the smaller companies have to follow the same one-size-fits-all requirements as the largest companies. They have a fraction of the resources and growing regulatory burdens are contributing to reducing the attractiveness of private companies to list on UK public equity markets.”

MiFID II unintended consequences continue

According to the QCA/Peel Hunt survey, 79% of investors suggested that MiFID II has had a negative impact on the liquidity of UK mid and small-cap stocks since it came into force two years ago, as the volume and quality of analyst research on these stocks has diminished.

82% of investors reported that the volume of research being produced each year on small and mid-caps stocks is decreasing, with 77% expecting this decline to continue in 2020. The quality of analyst research is also said to have suffered over the past year as a result of MiFID II, with half of respondents (48%) of investors & 52% of companies highlighting this declining trend.

The survey also asked investors for their perceptions on how MiFID II was impacting the broking sector. For the second year running, nine out of 10 investors said that MiFID II would result in there being fewer broking houses in the next three years.

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About Peel Hunt

Peel Hunt is an independent corporate broking/advisory house that has highly rated, sector-aligned Research, Sales and Corporate teams, with a current retained corporate client list of over 140 listed



companies, 960+ institutions who have signed up to receive its research, and a trading platform that makes markets in c.3,500 equity and fixed income products.

Peel Hunt ranked 1st in the 2019 Thomson Reuters Extel Survey of UK Small & Mid Cap Brokerage Firms with hedge funds, Continental European Institutions, and was voted the #1 UK Mid & Small Cap broker by Corporates and the top research house in its category for the third successive year, while its sector teams achieved more Top 2 ranking than any other broker.

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About the Quoted Companies Alliance

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies. We campaign, we inform and we interact to help our members keep their businesses ahead. Through our activities, we ensure that our influence always creates impact for our members.

For more information please visit www.theqca.com.