

PEEL HUNT

QUOTED
COMPANIES
ALLIANCE



THE EYE OF THE BEHOLDER

The differing perspectives on the UK's equity markets



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INTRODUCTION FROM PEEL HUNT

For quoted companies and investors alike, 2021 was marked by a mix of new and continuing themes.

While the shadow of the pandemic continued to hover over global economies and societies, the rollout of vaccination programmes helped markets look ahead and beyond. Testament to this, the storming recovery of UK M&A continued apace through 2021, with record IPO volumes across the year seeing more company listings on the London Stock Exchange than in the two previous years combined. All the while cash-rich private equity continued to splurge on UK-listed companies, taking advantage of valuations that remain at significant discounts to global peers.

The rise of retail investors was again prominent, as day traders across the pond made headlines taking on hedge funds and pumping up the prices of previously out of favour 'meme' stocks. Closer to home, there were plentiful examples of retail investor participation in new UK listings using platforms such as Peel Hunt's own 'REX' portal. The recommendations set out in the UK Listing Review to make the process easier for retail investors to participate in IPOs also showed the growing awareness and focus of regulators in this area.

Equally, environmental, social and governance (ESG) remained top of mind, with the COP26 spectacle in Glasgow further sharpening focus on how companies approach cutting carbon emissions. Disclosure continues to evolve and improve, but it is clear that any increasing requirements must be carefully considered, particularly for small and mid-cap companies. The merits of the impact of MiFID II on the research that is now available to investors on these companies also remains up for debate.

But as we look back on 2021 and ahead through 2022, there are two defining external factors that have come to dominate minds – supply chains and inflation. How corporates manage these immediate headwinds will be a critical focus for investors and visibility understandably remains a concern. Whether due to new variants emerging, new trading relationships being forged or changing regulation and central bank policies, continued macroeconomic uncertainty looks certain.

Amid this backdrop, the critical role of the capital markets has come into ever sharper focus as a steward to support the wide range of small and mid-sized companies that are the lifeblood of the UK economy. So whatever 2022 and the years beyond hold, it is clear that this source of strength will remain central to fuelling future growth and ensuring the UK cements its position as a destination of choice for private companies seeking capital.

This year's investor sentiment survey conducted by YouGov touches on all of these topics, and we have again been delighted to support the QCA with this important research.



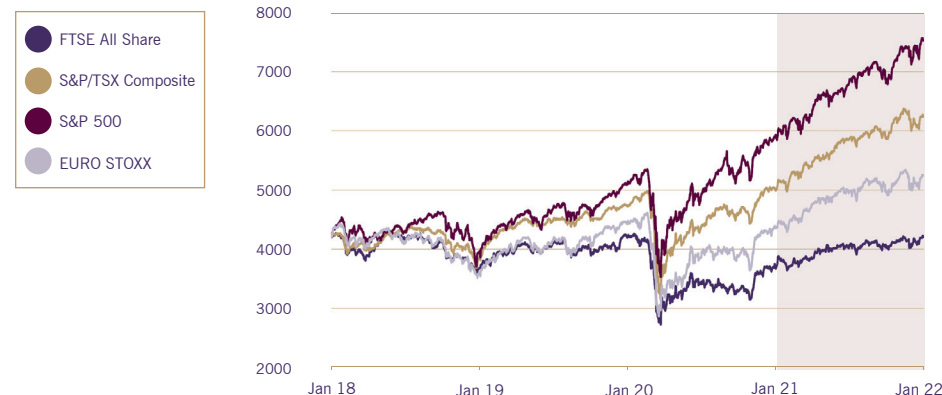
Steven Fine
Chief Executive

PEEL HUNT

2021 M&A TRENDS

FTSE consistently trading at a discount to global peers since 2020

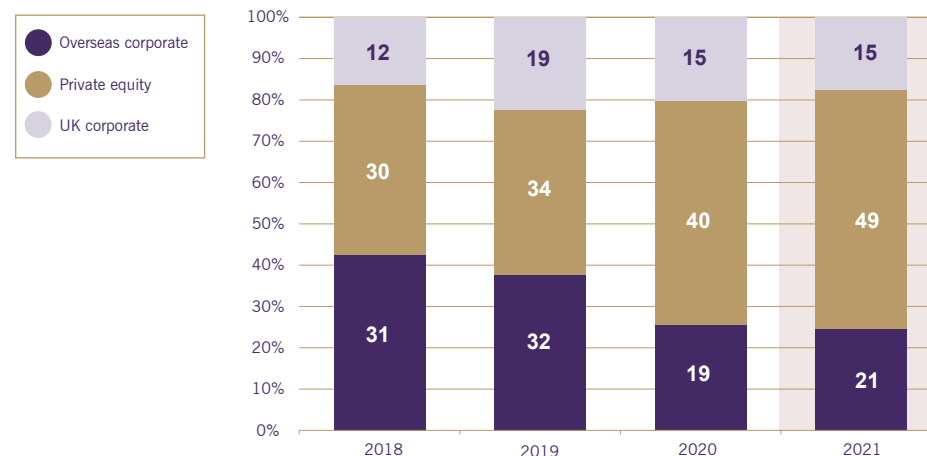
FTSE ALL-SHARE VERSUS EQUIVALENT G7 INDICES DURING 2021 REBASED TO FTSE ALL-SHARE¹



Source: Thomson Reuters Eikon
Notes
1. Largest subset of index where data available utilised.

Financial buyers and overseas strategic bidders continued to be significant acquirers of UK plc

SPLIT OF ANNOUNCED TAKEOVERS BY BIDDER TYPE



Source: Peel Hunt M&A tracker
Notes
1. Data relates to transactions where offer periods started within the date range. We only include offers for which buyers have been publicly identified
2. Private equity refers to any approach made to an offeree by an offeror that is either a private equity 'bidco' or a financial sponsor-backed company

THE QCA VIEW

This has been another year where small and mid-caps have demonstrated their resilience and found support from the public markets. However, despite this vital support from the public markets, many quoted companies still see these markets as being unattractive. By contrast, investors do not share this view.

This difference of opinion is one that needs to be addressed. The bringing together of businesses and investors is a fundamental part of our economy and drives the creation of social wealth.

Companies have been faced by the challenges of both the pandemic and leaving the EU - staff shortages, supply chain shortages and inflation amongst others – and companies are living in a time when budgets and forecasts can be off-beam very quickly.

Unsurprisingly, however, these challenges are precisely the issues investors are most concerned about. They want to hear from their investee businesses about different scenarios and what plans are in place to tackle them. And, as ever in the background, regulation is tightening, placing an extra burden on businesses of the need for more ESG and non-financial disclosures. The intentions are welcome and seen as imperative, but the way of implementation is likely to be disproportionate and overbearing. This could be

why many companies do not see the emergence of ESG funds making the markets more attractive, whereas investors see them as having a broadly positive effect.

Liquidity remains a key issue for small and midcaps also, in part, because research on these companies remains sub-par in terms of both quality and quantity from their directors' perspective. Recent announcements from the FCA exempting companies with a market capitalisation below £200m MiFID II unbundling rules may go some way to rectifying this. This change of policy has been influenced by many years campaigning by the QCA and others.

Looking ahead, the further development of the Primary Markets, Wholesale Markets, Prospectus and Secondary Capital Raising reviews are eagerly anticipated as these all aim to ease burdens on small and mid-caps and could make the UK's public markets more attractive. Meanwhile the application of TCFD policy and the Audit and Corporate Governance review pose threats because if they are disproportionately implemented companies will see our markets as even more unattractive.

Striking the right balance between proper regulation - that sets us on the right path to tackling significant challenges such as climate,



diversity and sustainability - whilst creating public markets that are dynamic enough to encourage companies to join and thrive is a critical challenge; particularly given we are (hopefully) emerging from the pandemic as well as being without a large trading bloc.

This survey, conducted by YouGov, throws light on many of these issues and provides strong evidence that the markets worked well in 2021 from an investor's point of view, but that the future health of our markets cannot be taken for granted; especially from a business point of view. Much more needs to be done and we will be working hard to effect positive change.

This is an important survey, only possible with Peel Hunt's enthusiastic support. Many thanks to Steven and the team for working with us again; we enjoy it very much and it is much appreciated!



Tim Ward
Chief Executive



EXECUTIVE SUMMARY

KEY FINDINGS

There is an emerging disparity between how companies and investors view the public markets. Investors consider the current conditions are attractive for small and mid-caps while the companies disagree and think the situation is deteriorating.

There are concerns about macro-economic conditions across the board with companies finding it more difficult to forecast their prospects.

Investors have seen capital markets days as particularly effective at increasing company visibility. Companies have focused much of their efforts on improving their corporate websites over the past three years.

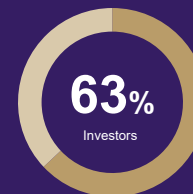
Companies are also less convinced than investors that the emergence of ESG funds will make the public markets more attractive to currently private companies.

There is significant variance in how small and mid-caps should be defined in terms of market capitalisation. This has an impact on views of at what stage a company should consider listing on the Main Market.

If a company on the Main Market is below the perceived minimum level of market capitalisation, investors do not think that such companies should be forced off the Main Market.

There is broad agreement that retail investors make a positive impact and are desirable on a company's share register.

Both investors and company directors feel there is not enough quality research for small and mid-caps and that this hinders their investment decisions and liquidity respectively.



63% of investors and 45% of companies think the UK market is attractive.

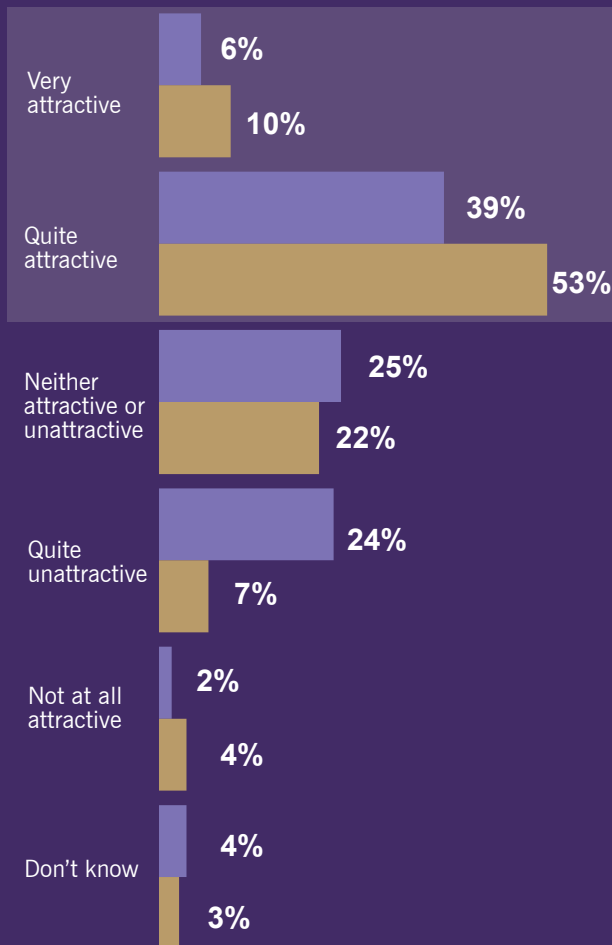


50% of investors think the attractiveness of the UK market has improved over the last 12 months, but only 30% of companies think it has improved.

THE ATTRACTIVENESS OF UK PUBLIC EQUITY MARKETS

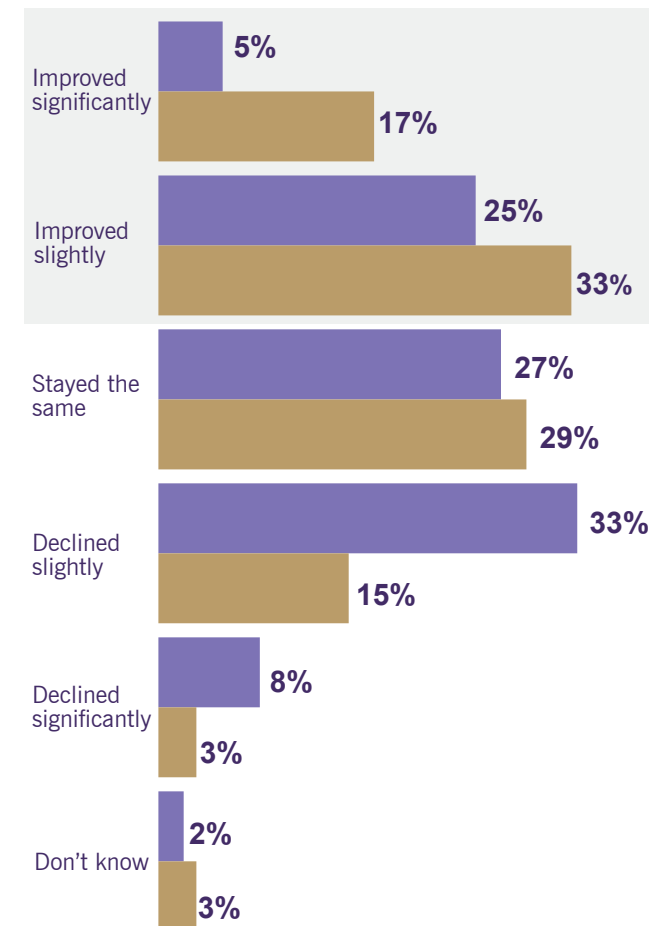
Difference of opinion between investors and companies. 63% of investors think public markets are attractive compared with only 45% of companies.

How attractive would you say public markets are for small and mid-caps currently?



Stark disparity continues between investors and companies. Half of investors believe the attractiveness of public markets has improved over the last 12 months compared with only 30% of companies.

How has the attractiveness of public markets changed for small and mid-caps in the past 12 months?





What changes do you think could be made to improve the public listing market for small and mid-caps?



Relaxing regulation and reporting requirements are frequently mentioned by investors as effective ways to improve the public listing market for small and mid-caps.

Company directors tend to agree, emphasising that perception issues are also a hinderance.

INVESTORS VIEWS

Listing requirements and expected code adherence favours the reporting resources of larger companies, creating a difficult environment for smaller companies and a complexity and cost barrier to entry.

Disband MIFID II, look at the US where liquidity has risen since the Financial Crisis of 2009 vs UK (and Europe) where liquidity has fallen. Must be due to regulation and how risk capital is determined.

Less bureaucracy. Specifically less onerous reporting on everything from remuneration to ESG. Not bad things in themselves but need to have more agreement/more standardised reporting.

Less strenuous listing requirements by LSE

COMPANIES VIEWS

Fundamentally public companies need to be seen as a businesses not vehicles for the implementation of Government policy on things like climate change and other ESG issues. Investors also need to be more tolerant of short term dips, be less focussed on performance against expectations..

Media coverage - the media has a habit of picking up on the bad news and the good news is not frequently heard. Now that the AQSE has essentially relaunched, there is increased choice for potential issuers and perhaps offering a more viable option for the small cap listed market

A halt to the frequent and needlessly burdensome changes to public company regulations. Easing of restrictions on companies with a market cap of less than £100m

Make governance of companies agnostic between publicly funded and privately funded. Abolish the tax advantage of private equity

What current conditions are causing the greatest difficulty for small and mid-cap listed companies?

Difficulties facing small and mid-caps are liquidity and supply chain issues, being the most frequently cited concerns by both.

Regulation and liquidity are also frequently mentioned challenges for company directors.

INVESTORS VIEWS

Increasing focus of investors on moving up the market cap size spectrum to avoid liquidity concerns and the lack of long term patient capital at the smaller end of the markets

I think the lack of liquidity in the market, it is always the case. The hardest thing is actually attracting money and it is always going to be that way. The markets are more liquid now, than they have been through the years but a lot of it is tied up in areas where investors are trying to drive volatility from portfolios and small and mid caps tend to be the most volatile area within the market place.

Supply issue from logistics and transport and labor constraints are two of the greatest difficulty for these companies.

From an investment point of view, lack of awareness amongst potential investors. From a business point of view, all the normal problems of staff, supply lines, component inflation, competition, etc.

COMPANIES VIEWS

Economic uncertainty (Covid, supply chains) makes it harder to meet performance expectations and to provide guidance (forecasting) which then cause impact valuation stability. Also, for small caps, increased ESG disclosure pressure may present an internal resource challenge. For larger caps, they already have dedicated IR and ESG and it is less of a resource impact perhaps.

Lack of liquidity. Increasing regulation/governance/compliance expectations.

Covid, supply chain challenges and labour shortage.

Pandemic, supply chain issue, consequences of not being recognized

INVESTOR'S PRIORITIES AND COMPANIES' CHALLENGES

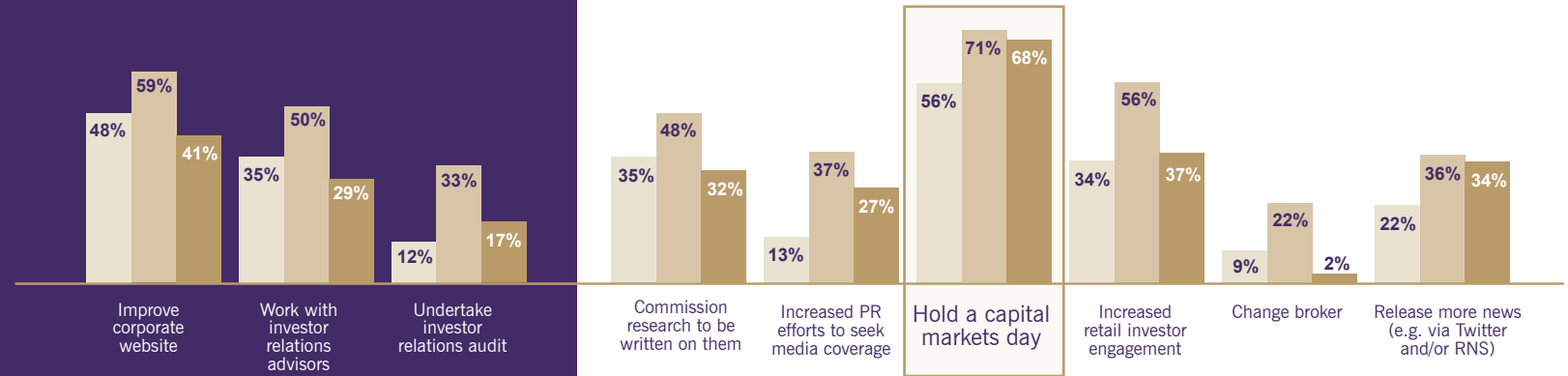
Over the past 3 years, investors have consistently viewed capital markets days as the best way for companies to improve their visibility with investors.

Investors have a range of priorities and are most concerned about prospects given uncertain macro economic pressures. Companies similarly find those questions regarding their forecasting most challenging to address.

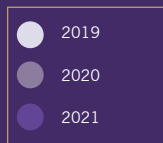
Which of the following, if any, do you think would most help companies to increase their visibility with investors?



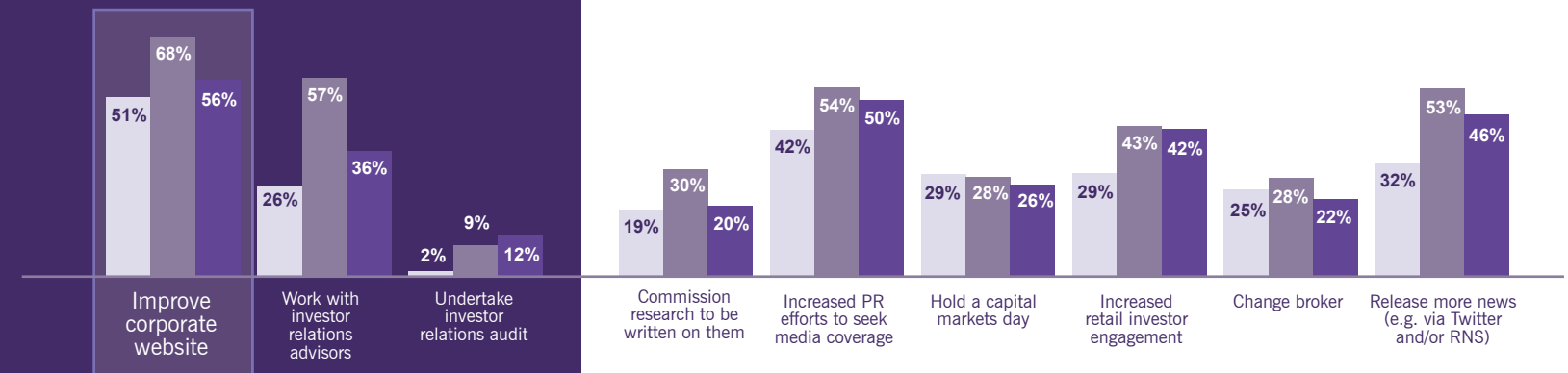
INVESTORS



Have you taken any of the following steps to increase your visibility with investors?



COMPANIES



Companies, however, are consistently most likely to say they have made improvements to their corporate website to boost visibility.

Investors have a range of priorities and are most concerned about prospects given uncertain macro economic pressures. Companies similarly find those questions regarding their forecasting most challenging to address.

What is the most important question you are currently asking small and mid-sized quoted companies in the current economic environment?

INVESTORS

Impact of cost inflation (labour, raw materials, freight, energy) and availability of each of these factors - and to what extent can inflation be recovered through price increases.

How are you affected by supply chain/cost issues and how long do you expect the effects to persist.

Are you considering the pre-emption rights of existing shareholders when looking to raise capital.

What is the most challenging question your investors are currently asking you in the current economic environment?

COMPANIES

Our investors are focussed on the medium to longer term and so are not that exercised by the immediate economic environment. However, they do want to see share price appreciation and so news flow is critically important.

Lots of concerns around employee retention, skills and supply chain shortages across the technology sector all of which could impact the rate of future growth.

Future forecasts. Due to Brexit, Covid-19 and uncertainties related to inflation and interest rates, sharing accurate forecasts with the market is quite challenging

A variety of actions are listed by respondents when asked what corporate brokers can do more of to help both investors and corporate clients. Research and liquidity were central.

What in your opinion could a corporate broker do more of to help investors?

HELPING INVESTORS

There are certain bits of information that retail investors and their advisors need - other listings, qualification for tax reliefs (particularly AIM reliefs against IHT). Tracking news and comment in the investing press, and tracking research.

Facilitate liquidity. Introduce companies to wider pools of investors pre-qualified as probable investors.

Provide more liquidity in the shares; frequently a 3-4% dealing spread in £10,000 is a big deterrent for most investors...

What in your opinion could a corporate broker do more of to help their corporate clients?

HELPING CORPORATE CLIENTS

Ensure compliance with rules. Give an opinion on the stock. Help sell the story in an accurate and fair way.

Increase visibility of stock with targeted investors [and] help us understand which funds to target

Write at least one in depth piece on each company every year and make it affordable.

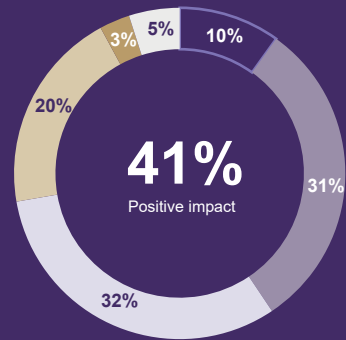
ESG FUNDS AND CORPORATE GOVERNANCE

The largest number of investors believe the rise of ESG funds will have a positive impact on the attractiveness of public markets, while around a quarter expect a negative impact.

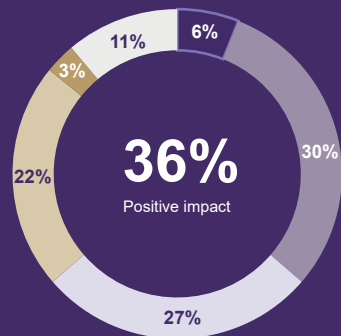
What impact do you think the rise of ESG funds will have on the overall attractiveness of public markets for private companies?

- Very positive impact
- Quite positive impact
- No impact
- Quite negative impact
- Very negative impact
- Don't know

INVESTORS



COMPANIES

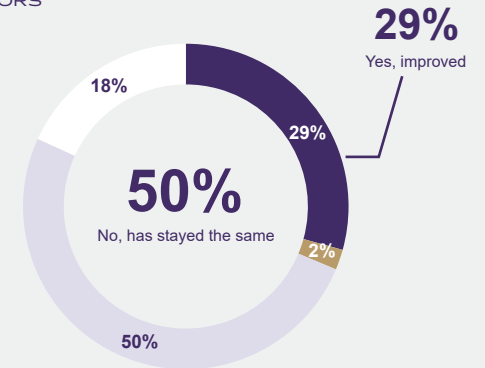


Half of investors believe the quality of corporate governance has not changed in the past year. Those that perceive a change are much more likely to think quality has improved rather than worsened.

Has the quality of corporate governance in small and mid-caps changed in the past 12 months?

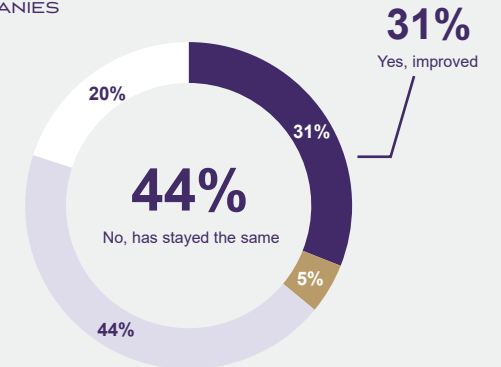
- Yes, improved
- Yes, worsened
- No, has stayed the same
- Don't know

INVESTORS



Companies' views are broadly in line with investors.

COMPANIES



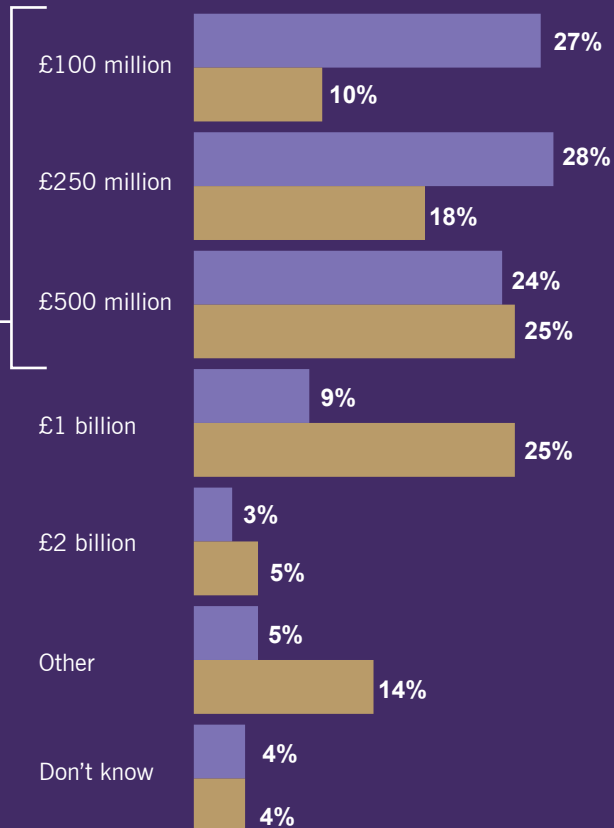
DEFINING THE UK SMALL & MID CAP MARKETS

Investors vary on how the definition of a small and mid-sized company should be calibrated; a quarter each say the maximum level should be £500m and £1b. Companies generally skew towards lower amounts on this question when compared to investors.

If set at the market capitalisation level, what should the definition be for a “small and mid-sized company”?

● Companies
● Investors

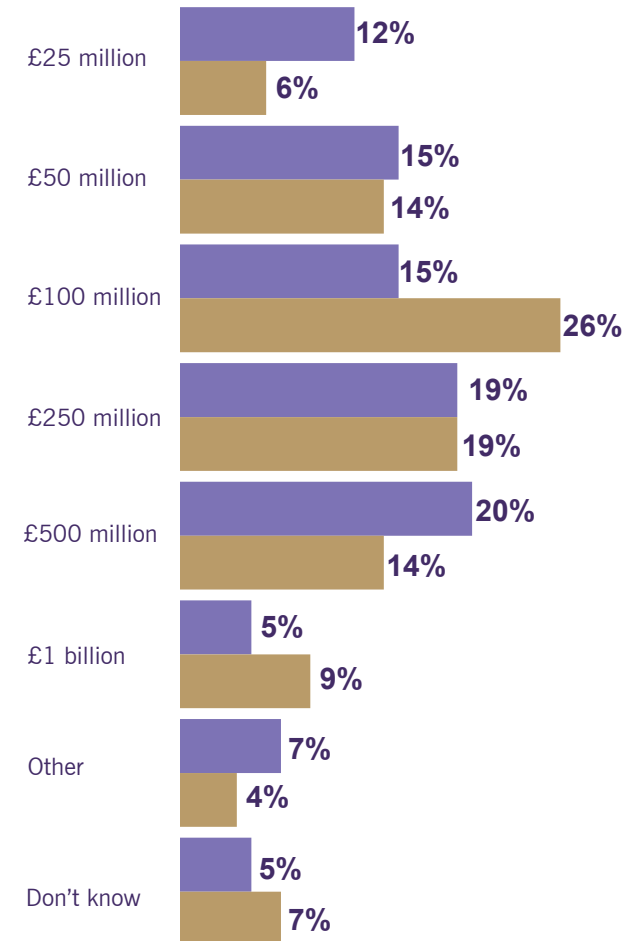
Companies generally skew towards lower amounts on this question when compared to investors.



When asked what the minimum market cap a company should have before considering listing on the main market, investors and companies are split – most investors are likely to suggest £100m as the minimum, while most companies say £500m.

What do you think is the minimum size in terms of market capitalisation that a company should have before it considers a listing on the Main Market?

● Companies
● Investors



What should be done if a company falls below your idea of the minimum size to be on the Main Market?



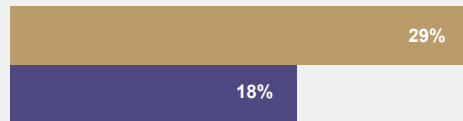
The FCA should develop proportionate rules to encourage smaller companies to remain on the Main Market, offering an alternative to the small-cap growth markets



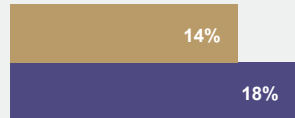
They should be encouraged to move to a small-cap growth market voluntarily



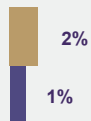
No changes need to be made, all Main Market companies should be treated the same



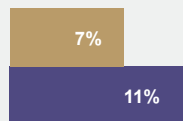
They should be moved to a small-cap growth market as a matter of course



Other



Don't know

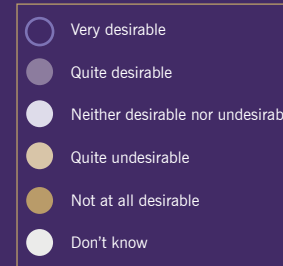


Investors believe that those companies that fall below their selected minimum size on the main market should either be allowed to remain on the Main Market or should be encouraged to move voluntarily.

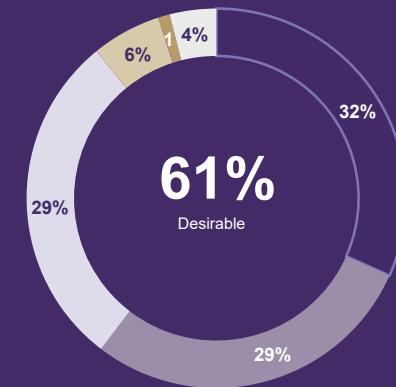
RETAIL INVESTORS

Over time we have seen companies increasingly recognise the importance of retail investors. Four-fifths of companies now see retail investors as desirable. Investors generally view retail investors as a desirable feature of a company's share register, with very few seeing them as undesirable.

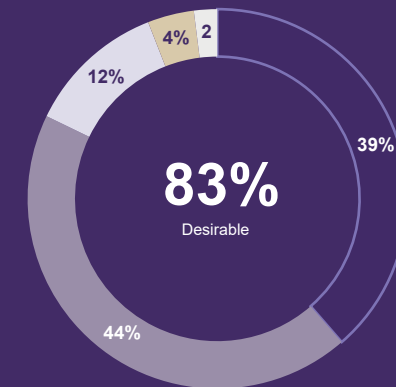
How desirable or undesirable do you consider retail investors to be as a feature of a company's share register?



INVESTORS



COMPANIES



Company directors, advisors and investors identify the importance of retail investment

What changes do you think could be made to improve the public listing market for small and mid-caps?

The increased retail investor interest in the market, will bring in more funds for private companies making the public markets attractive for [small and mid-caps].

INVESTORS

Difficulties [for small and mid-caps] include failing to raise their profile with retail clients, corporate brokers who will not allow access to their company research by the wider investment community as well as non-existent media coverage.

Make such IPO's available to the general public or, failing that, to the platforms such as Hargreaves Lansdown, AJ Bell etc. In my opinion it is steady and consistent buying by retail investors that will move a share price higher [and that would improve the public listing market for small and mid-caps].

COMPANIES

I think the opportunities exist to broaden the register and include new growing classes of investors - retail in particular. Many IPOs which didn't get away in 2018/9 have been able to succeed due to the retail participation. My answer is predicated on company management doing the right things to harness the opportunity - it won't happen by itself.

The regulatory regime simply impedes retail investors from accessing appropriate research and diligence

A change to the investment advertisement regime to allow retail investors to participate in the way that they can in Crowd Funded transactions could improve the public listing market for small and mid-caps

THE QUALITY AND QUANTITY OF RESEARCH

Investors are more likely to think the quantity of research available is not sufficient to aid investment decisions, with MiFID II frequently highlighted as a key issue. Perhaps controversially, many companies disagree with this.

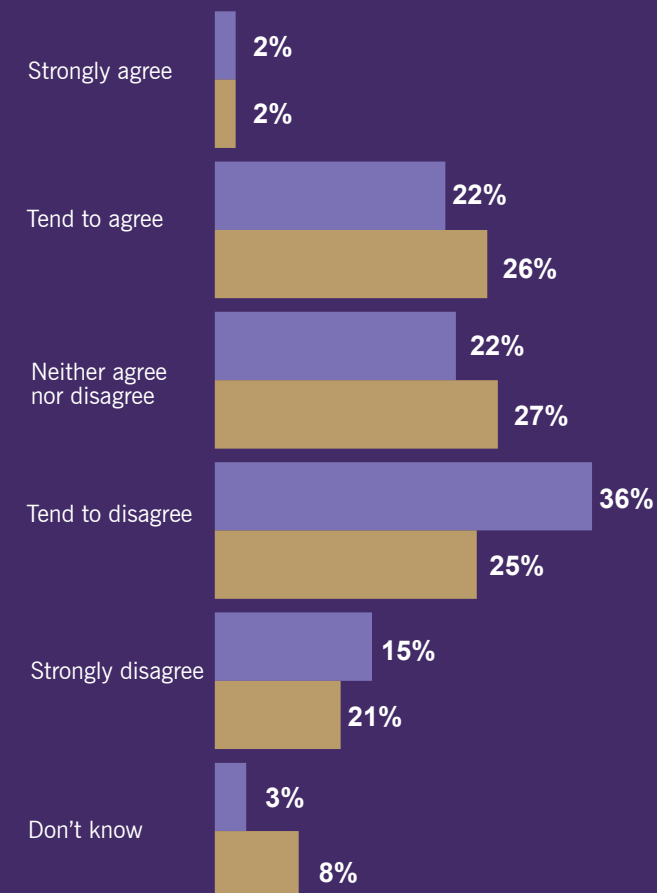
To what extent do you agree or disagree with the following statements?

INVESTORS

The quantity of mid & small cap research is high enough to aid my investment decisions

COMPANIES

The quantity of mid & small cap research is high enough to attract investment into my company



You say the quantity of mid & small cap research is not high enough to aid investment decisions. Why do you say that?

INVESTORS

The regulation forcing us to pay for broker research has killed a lot of it and it specifically disadvantages boutiques who cannot afford it all. Yet the market needs smaller players to aid liquidity.

Mifid II has meant research is spread over too broad a number of providers which require managing. We do not always have the time to follow all of these new entrants ie paid for research houses.

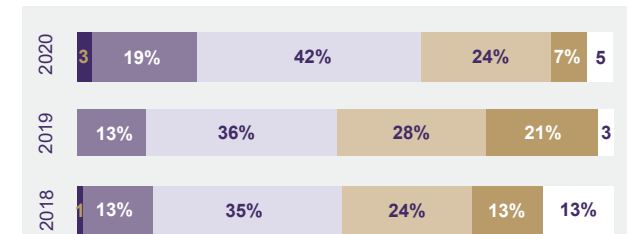
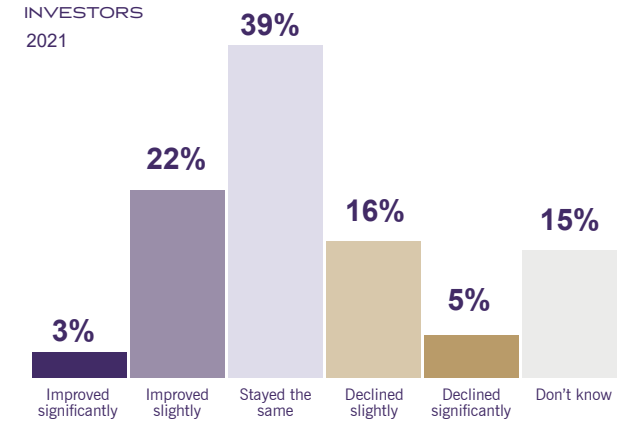
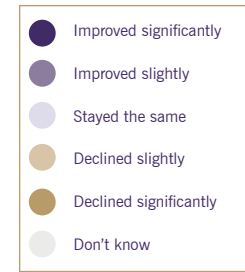
You say the quantity of mid & small cap research is not high enough to attract investment into your company. Why do you say that?

COMPANIES

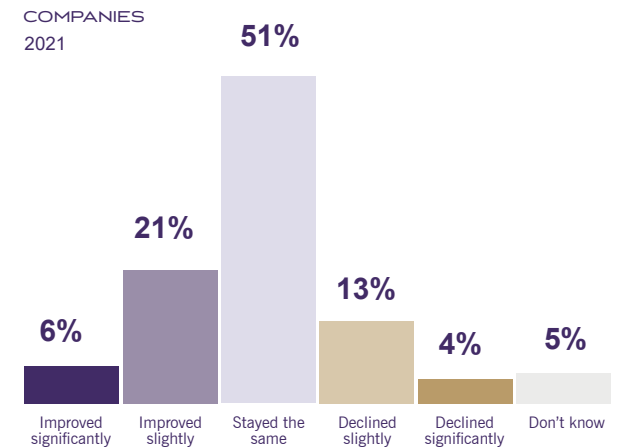
There doesn't seem to be a business model that encourages multiple sources of research about our stock

Among investors, for the first time since this question was asked, those that perceive an improvement in the quality of research outnumber those perceiving a decline. Companies are also more likely to perceive an improvement rather than a decline.

Thinking about the general quality of mid & small cap research over the last 12 months, do you feel this has...



Thinking about the general quality of research on your company over the last 12 months, do you feel this has...



METHODOLOGY

Between 29th September and 27th October 2021, YouGov conducted an online survey of 126 UK-based fund managers to explore their attitudes towards a range of subjects.

Respondents were sourced from a combination of contact lists provided by Peel Hunt, the Quoted Companies Alliance and YouGov.

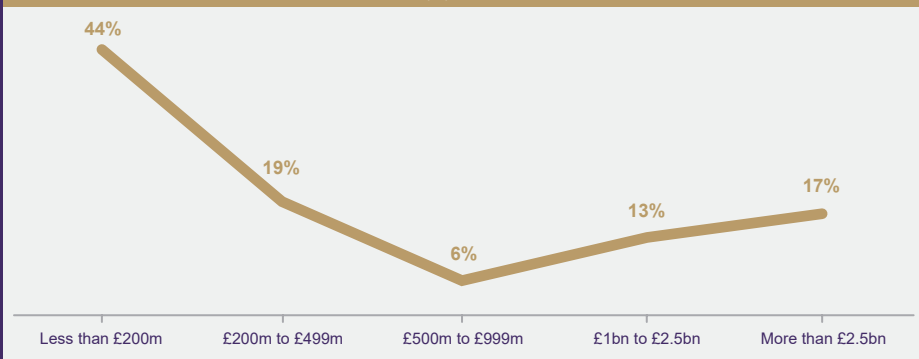
The survey lasted approximately 15 minutes and was completed on YouGov's online platform. All data was collected confidentially. Quotes taken from this sample are visualised in boxes.

This survey follows on from a similar study conducted in 2017, 2018, 2019 and 2020 using the same methodology.

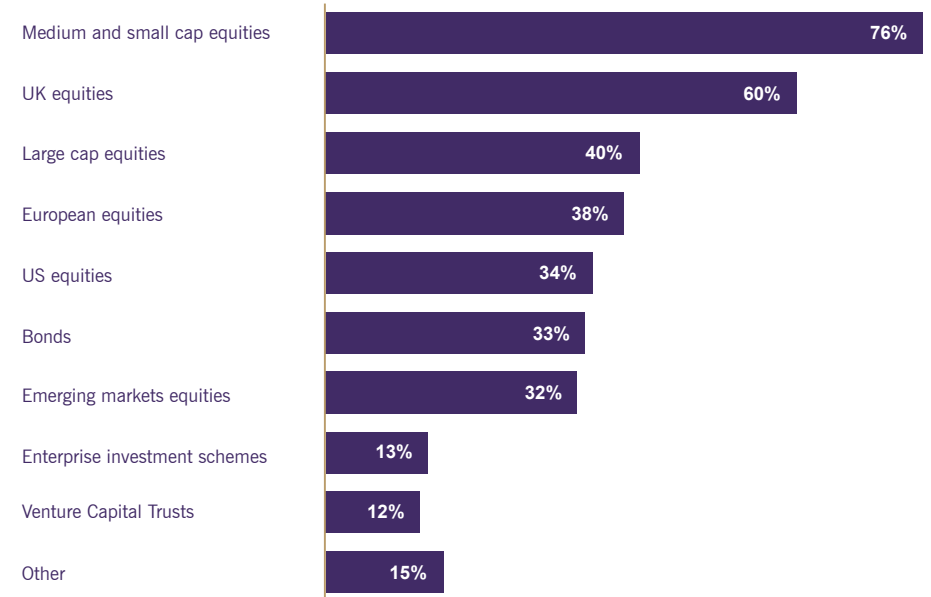
A parallel survey was also run among 118 small and mid-cap UK quoted companies. Where comparable, the results for this sample are also shown in these slides.

NOTE: There may be some discrepancies in NET scores due to rounding of data.

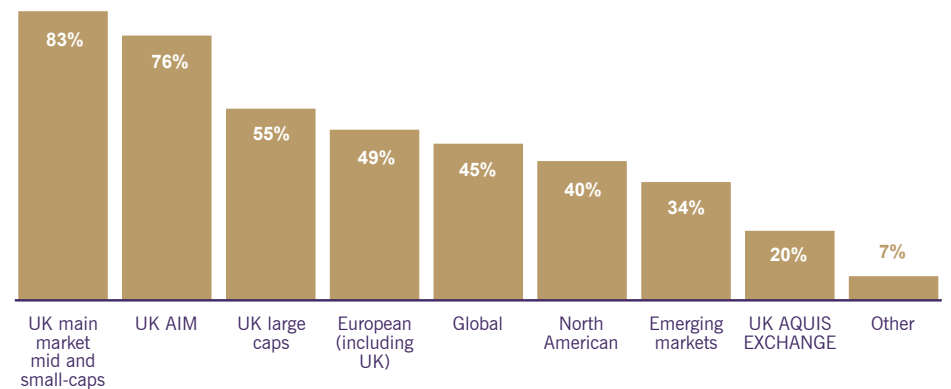
SIZE OF ASSETS UNDER MANAGEMENT (%)



TYPES OF FUNDS MANAGED (%)



EQUITY AREAS FUNDS INVEST IN - THOSE INVESTING (%)



APPENDICES

PEEL HUNT

Peel Hunt is a leading specialist in UK Investment Banking, ranked number one broker for UK mid and smallcap companies in Institutional Investor’s latest Europe Survey. Our purpose is to nurture and guide people through the evolution of business. We achieve this through a proven, joined-up approach that consistently delivers value to UK corporates, global institutions and trading counterparties alike.

We have over 160 corporate clients (including over 30 in the FTSE 250), with an average market capitalisation of approximately £775m. Our award-winning research is distributed to over 1,200 institutions across the UK, Europe and the US and has ranked No. 1 for UK Small & Mid-cap Research for the last five years in Institutional Investor’s Europe Survey. Our trading platform makes markets in over 10,000 instruments in 38 markets and is an increasingly important provider of trade execution services to the UK retail platforms and brokers.

Peel Hunt LLP: Disclaimer

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2021 FUNDRAISING TRACKER

UK EQUITY RAISES >£5M IN 2021

303

Number of UK deals >£5m

£26,574.5m

Total raised

£85.2m

Average raised

-7.3%

Average premium / discount*

24.5%

Average % of company sold*

1,295.0m

Highest raise

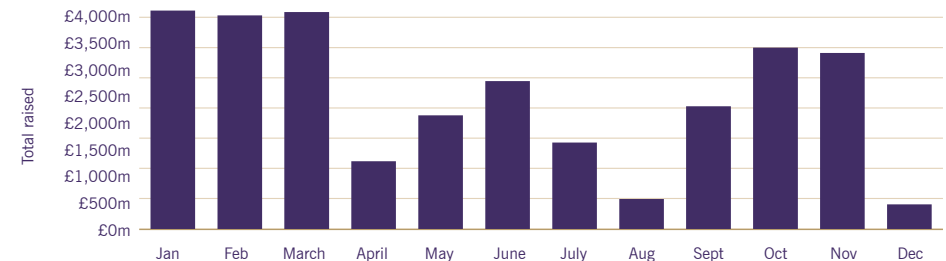
68

Number of deals with retail element

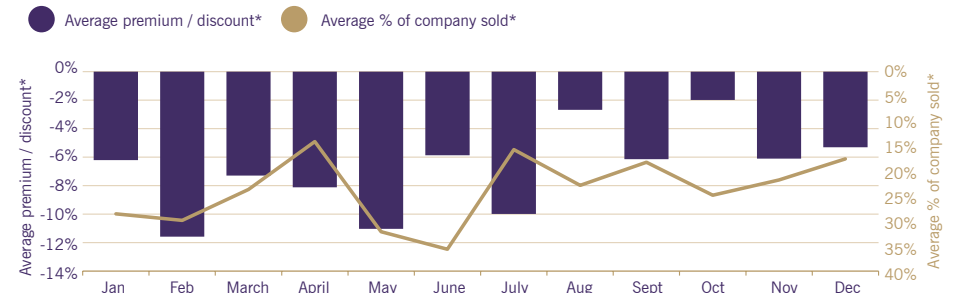
1.9%

Average director participation % total raise

TOTAL RAISED BY MONTH



PREMIUM / DISCOUNT VERSUS % OF COMPANY SOLD



QUOTED COMPANIES ALLIANCE

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small and mid-sized quoted companies.

The value of our members to the UK economy is vast – as is their potential. There are around 1,250 small and mid-sized quoted companies in the UK, representing 93% of all quoted companies. They employ approximately 3 million people, representing 11% of private sector employment in the UK, and contribute over £26bn in annual taxes.

Our goal is to create an environment where that potential is fulfilled.

We identify the issues that matter to our members. We keep them informed. And we interact to build the understanding and connections that help our members stay ahead.

The influence we have, the influence we use, and the influence we grow, ensures that our members always benefit from the impact of our initiatives.




YouGov plc is a global market research and data company built on a simple idea: The more people participate in the decisions made by the institutions that serve them, the better those decisions will be. YouGov completes thousands of interviews every year with senior politicians, business people, members of the media and other stakeholders, providing guidance for clients in how best to optimise their activities and communications.

The company was founded in 2000 and is now publicly listed on the London Stock Exchange's AIM market. It has over 800 employees in over 30 offices globally including several in the US but is headquartered in the UK. It is a member of the British Polling Council and is also registered with the UK Information Commissioner's Office.

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