

HYBRIDAN

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Current Market Sentiment March – May 2021



Current Market Sentiment in Summary

- H UK small cap sentiment remains buoyant in 2021, continuing the positive momentum of 2020, in which the AIM market rose 21% compared to a decline of 14% in the Main market, a massive 35% outperformance.
- H AIM companies raised £5.3bn in 2020, the most since 2010. Private capital raisings have also remained strong.
- H While IPO activity was subdued in 2020, activity started to pick up in Q4, with 10 IPOs on AIM in the final quarter of the year raising £192m compared to three in Q3 raising £76m. That compares to only 10 IPOs on AIM in the whole of 2019, so life is certainly coming back to this entrepreneurial SME market.
- H Our daily Small Cap Feast, which tracks broad IPO activity in all small cap markets, including AIM, the Standard List and the Aquis Exchange, suggests momentum in new listings will continue in 2021, with companies such as AMTE Power, Samarkand, Deliveroo, Trustpilot, Rogue Baron, Parsley Box, Moonpig, Dr Martens etc having listed in March, joining companies including Supreme, Kanabo Group, Cornish Metals, and Nightcap, that listed early in 2021.
- H EIS and VCT funds, with high levels of funds to deploy, continue to seek both listed and unlisted opportunities. We strongly urge management teams aiming to raise growth capital not to delay in opening conversations with investors.

Current Market Sentiment

- UK small cap market sentiment remains buoyant in 2021, continuing the positive momentum of 2020, in which the AIM market rose 21% compared to a decline of 14% in the Main market, a massive 35% outperformance.
- In a year dominated by bad news, AIM companies raised £5.3bn in 2020, the most since 2010. It is perhaps fitting that on the junior market's 25th anniversary, it showed that when the chips were down and companies needed access to capital quickly and efficiently, the UK junior listed ecosystem of corporates, investors and advisers delivered resoundingly.
- Indeed, the value of all trades on AIM in 2020 was £83bn, the most since 2007, while the total number of trades last year was 17.1m, equivalent to more than an eighth of all trades on the market in its entire lifetime.
- Not only that, the AIM market finished 2020 at its highest ever total market capitalisation, of £131bn, up from £104bn in the previous year, even as the number of companies listed dropped to 819 from 863. While that's the least number of listed companies since 2003, the average market capitalisation is over £160m, up from £66m a decade ago, showing the market is maturing with a trend to more established companies.
- While IPO activity was subdued in 2020, with private companies reluctant to test the market in the face of the pandemic, activity started to pick up in Q4, with 10 IPOs on AIM in the final quarter of the year raising £192m compared to three in Q3 raising £76m. That compares to only 10 IPOs on AIM in the whole of 2019, so life is certainly coming back to this entrepreneurial SME market.
- Momentum has carried on into the first quarter of 2021, with many predicting a bonanza year for IPOs. Among larger companies, Darktrace, Brewdog and TransferWise are all contemplating a listing, following Moonpig and Dr Martens which have recently listed.
- In the smaller company space, consumer products business Supreme listed in the first week of February, with miner Cornish Metals and finance boutique Baskerville Capital which was renamed Oberon Investments Group followed on to list.
- Some recent small cap joiners that have already made a splash this year include bar operator Nightcap, up 85% since listing on AIM on January 13, and One Heritage Group, a property developer focusing on the north-west of England and a corporate client of Hybridan, which has quintupled in price since joining the Standard List on December 23rd 2020.

Outlook

- With vaccines being rolled out globally, the US election in the rear-view mirror and Brexit having at least been passed in date terms, optimism in equity markets remains high with investors keen to look at transactions and hear new investment stories.
- Our own deal pipeline remains strong, as it has throughout lockdown, both in the public and private spheres, including a mix of IPOs, secondary fundraises, reverse transactions and substantial vendor placings.
- While there is of course a risk that any future shocks may dampen investors' enthusiasm, our message to companies seeking to spread their investment case or raise capital is to strike while the iron is hot.
- As long as there is a compelling reason for capital raising, such as adding to revenue-generating teams or making accretive acquisitions, or a management team wishes to update investors on their equity story that has perhaps been overlooked and consequently mispriced, investors will be willing to listen.
- While sectors like healthcare and technology remain in focus, companies in all sectors have a good opportunity currently to pitch the investment community, as long as a credible story for future growth is in place.
- As the world slowly emerges from the darkness of the pandemic, pent up demand for goods, services, and natural resources should enable those companies who have navigated 2020 successfully to emerge stronger than before and deliver strong returns to shareholders who have supported them through a challenging period.
- We continue to urge small cap management teams to:
 - Stay flexible when it comes to pricing new equity issuance, or if the discount needed to raise the required amount is too deep, consider other forms of financing including convertible loans.
 - Continue in the quest to introduce your story to new investors, as it is a worthwhile exercise to ensure it is on the radars of new potential investors, and some may even buy in the market. If cash is king, liquidity is queen – investors need liquidity more than ever and companies will only increase liquidity by being proactive with investors when they do not expressly require new funds.
 - Ensure all possible pools of capital are approached, both professional and retail, in the latter case potentially utilising one of several platforms that specifically exist to service this audience.
 - Make sure any available tax efficient structures such as Enterprise Investment Scheme and Venture Capital Trust eligibility is obtained, given that this is one area of the market that is certainly still investing.