

HYBRIDAN

YOUR PARTNER FOR GROWTH

Market Sentiment

June – August

2021

Current Market Sentiment:



- ❖ UK small cap market sentiment remains buoyant in 2021, continuing the positive momentum of 2020, in which the AIM market has risen 8.6% in the first 5 months of 2021 and the largest 100 company's index rose 6.9% over the same period. At the other end of the scale as of April 2021 there are 28 companies on AIM valued at more than £1bn, the highest number there has ever been on AIM. Strong momentum continues as AIM is up 31% ahead since the end of 2019 and the largest 100 UK listed companies seeing a 25% increase.
- ❖ 2021 so far has all the hallmarks of 2014 with the main market welcoming companies such as Deliveroo, TrustPilot, Moonpig and Dr Martens. AIM as well continuing to be a hot bed for exciting growth companies such as TinyBuild; the video games publisher was the largest US company to list on AIM with a market cap of \$470m, raising half that market cap at IPO. Other AIM IPOs Belluscura, Kitwave, Glantus and Dianomi, all had a combined market cap of over £300m.
- ❖ SPACs (Special Purpose Acquisition Company) or simply "shell" to the traditionalist has been the latest bandwagon to hit the London market. Our friends across the pond on Wall Street are leading this new craze having raised over \$100bn in SPACs so far this year. This "blank cheque" investment approach to small caps is thwart with danger and usually only benefits the holders of the free options handed out at the start. If the target company is sound enough – avoid the potential skeletons in the closet IPO of a SPAC!
- ❖ Investors and companies are spoilt for choice when it comes to their exchange of choice. Aquis Exchange (AQSE) has been making great progress in redefining itself as an IPO destination for growth companies, most notably welcoming ecommerce tech firm, Samarkand raising £17m at IPO. Lord Hill's Listings Review has also been hotly debated, with the inclusion of 15% free floats and dual class share structures on the Main Market Premium, which we have witnessed for Deliveroo and The Hut Group on the Standard list of the Main Market.
- ❖ Company valuations have continued to rise on AIM, with just over one-third of AIM companies currently valued at less than £25m, accounting for 2% of the market capitalisation on AIM. As a result of larger flotations and strong share prices there are fewer smaller companies on AIM.
- ❖ Average monthly trading volumes for companies as a percentage of their market cap was 4.2% in Q1 2021. This is double what it was in 2019.
- ❖ AIM 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.
- ❖ There were 10 IPOs on AIM in the final quarter of the year raising £192m compared to three in Q3 raising £76m. Things have only accelerated in 2021 with 17 new IPO's from Jan to late May. That compares to only 10 IPOs on AIM in the whole of 2019, so life is certainly coming back to this entrepreneurial SME market.

Outlook



- ❖ “Make hay when the sun shines” is a very apt statement to how markets are feeling right now. With inflation worries simmering and the UK credit card looking flimsier than ever – the macro-outlook for small caps doesn’t bode well. That being said; momentum in the markets means the environment is still rife with placings and IPOs still coming on stream. Whilst we were long overdue a bull run, how long this one lasts remains to be seen.
- ❖ With vaccines continuing to be rolled out globally, optimism in the equity markets has returned and 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 block trades/ vendor placings.
- ❖ Our message to companies seeking to spread their investment case or raise capital is to strike while the iron is hot.
- ❖ So 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.
- ❖ There may be uncertainty in 2022 as to how the equity markets will perform. At some point government support needs to be withdrawn globally and naturally insolvencies will follow.
- ❖ We continue to urge small cap management teams to think about their next steps in this current equity friendly ecosystem and to look at the public market’s excitement. Now is a good time for Boards to think about the listed company environment.
- ❖ Flexibility is key in these markets – do not cut your nose off to spite your face when it comes to valuation expectations. Fundamentally sound businesses will always attract the right investor. We may indeed be at a point in the economic cycle where investors are starting to move from alpha to defensive so do not price yourself out of the game.

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