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November 2021 – January 2022

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 29.6% over the past year (to 31 Aug 21) and the largest 100 company's index rose 20.8%% over the same period.

- 2021 had all the hallmarks of 2014 with the main market welcoming companies such as Deliveroo (down 26% first day, losing £2.2bn of £7.6bn market cap.), TrustPilot, Moonpig, Dr Martens, Darktrace (April market cap £2.2bn, up 44% first day), Victorian Plumbing Group, Wise in July at £8bn. AIM IPOs music Magpie, Jadestone Energy, Thor Explorations, Kitwave, Revolution Beauty Group.

- At the end of June, the average market capitalisation of AIM's 826 constituents was at an all-time high of £178m. 25 AIM companies now worth more than £1bn. The number of companies on AIM has continued to increase with 836 by the end of October 2021. This is the second quarter in succession whereby the number of AIM constituents has increased.

- AIM's strong to start to 2021 as seen in Q1 accelerated into Q2 with £2.8bn raised in the quarter (Q1 £2.0bn). The £1.7bn raised in June was the most in any single month since July 2007. The Household Goods & Home Constructions sector raised the most money (£309.1m) due solely to the IPO of Victorian Plumbing Group Plc in June. Consumer Staples also featured heavily after the IPOs of Kitwave Group and The Artisanal Spirits Company Plc which between them raised £110.8m.

- The average monthly trading volume of 2.1% of a company's market cap in 2019 rose to 3.2% in 2020 and has averaged 3.8% so far in 2021.

- London was the most active equity market in Europe in H1 2021, with 2.1x more transactions (342 IPOs & secondaries) than the next most active exchange, Stockholm (161 IPOs & secondaries).

- Q1, Q2 and Q3 saw £13.4bn raised on LSE versus £9.3bn for the whole of 2020.

- Q2/Q3 £2.9bn raised on the Main market with 14 IPOs, and 19 IPOs on AIM raising £1.1bn.

- So far 2021, globally markets the best they have been equity wise in 20 years.

Outlook

- With inflation worries simmering and the UK credit card looking flimsier than ever – the macro outlook doesn't bode well. That being said, momentum in the markets are still rife with placings and IPOs still coming on stream and small caps generally will be resilient versus larger caps.

- British startups have raised more than US$30bn so far this year. The UK has outperformed France and Germany and is now third behind the US and China in funding for startups. Among the UK start-ups raising funds this year, the banking app Revolut is the most valuable. It raised US$800m in the summer and is valued at US$33bn. Financial tech start-ups have seen the biggest flow of money from investors, with over 300 companies raising US$11.2bn since the beginning of 2021, compared with US$5bn last year. Healthcare technology startups have raised US$5.6bn, compared with US$2.5bn in 2020, while private enterprise software businesses have raised US$3.5bn.

- Aftermarket performance has also been strong for IPOs – largely due to a surge in retail volumes in 2020 providing exceptional liquidity. Institutional flow H1 2021 has seen £2.2bn exit the UK, but £24bn of retail has come into the UK markets. With more working from home and on furlough gave rise to the opening of online dealing accounts. Many companies operating in sectors that were intensified by Covid such as biotech, remote learning and e-commerce were keen to take advantage of the IPO surge and capitalised on it.

- 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.

- 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, BUT there is some investor indigestion and valuation has to be right.

- 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 are 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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