London Stock Exchange

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HYBRIDAN

YOUR PARTNER FOR GROWTH

March – April 2022

Current Market Sentiment:

- London was the most active equity market in Europe in 2021, with: 2.3x more transactions (642* IPOs & secondary transactions) than the next most active European exchange, Stockholm (284 IPOs & secondary transactions) and 1.6x more in IPO and secondary transactions' proceeds (£49.3bn) than the next European exchange, Frankfurt (£30.2bn).

- Number of IPOs in London continued at pace throughout 2021 with 126 listing (60 on Main Market and 66 on AIM), the highest since 2014, raising £16.9bn.

- However, it was always going to be tough for markets to maintain the momentum and volumes that flourished across 2021. Research from UHY Hacker Young, found that AIM solidified its reputation as the best junior stock market in Europe – having raised over £9.5bn. Comparing this to other all European growth markets which raised £8.5bn between them.

- UK Small caps are having a tough start to 2022 – currently trading on an earnings basis at a wider discount than UK large caps for the first time since 2002/2003.

- Even prior to the War in the Ukraine, the AIM market had fallen more than 20% in the prior six months. As of February 2022, there were 845 Companies on AIM, with a total market capitalisation of £134.6bn.

- Three large and highly traded companies are leaving AIM. ASOS left AIM for the Main Market in February, while Clinigen and Blue Prism are set to leave towards the end of Q1/ early Q2. The total value of these three companies' trades in February is circa £1bn. This could lead to a big shortfall in AIM trading volumes as a result.

- The fuel cell and electrolyser developing companies have been slipping back since early 2021, but Ukraine invasion and the subsequent oil and gas price rises have also sparked a recovery in these shares, but they have a long way to go before they get anywhere near their previous level.

- ESG is increasingly important and a key theme in reporting. At the end of 2021, the LSE had 116 Green Economy Mark issuers with a combined market cap of £164bn

Outlook

- With inflation and rising interest rates, investors will continue to make a move to more defensive/income-based companies which are not common in the small cap sphere.

- That being said, brave yet wise small cap investors acknowledge the segment's ability to outperform the UK stock market over the long term. A return to a patient capital approach is required once again.

- Across the latter half of 2021, as we saw the gradual lifting of pandemic restrictions. We envisaged it would be a struggle for predominantly online retailers to continue their aggressive YOY growth from 2021. The e-commerce sector was hit with the perfect storm of wage inflation, labour shortages, ongoing supply issues and less consumer activity. Boohoo, ASOS, AO World, Ocado, The Hut Group, CMC Markets were all victims of the return to normal for consumer behaviours.

- Looking ahead, with oil now at the highest level for almost 14 years, oil and gas company share prices are likely to continue their run. Soaring coal and oil prices are not helping investors' cause of supporting a net zero investment policy.

- We continue to see a hotbed of innovation in small caps – especially at the crossover between healthcare and technology, in innovative consumer brand loyalty, new energy production and storage technologies, cyber is still a hot area, along with Web3 related technologies. Whilst Covid did not create any "new" behaviours, the pandemic certainly accelerated the pace of adoption.

- We believe that any rebasing of valuations in small cap growth stocks can present an opportunistic buying opportunity. This is particularly the case for companies with disruptive solutions that already count the likes of transport networks, public sector bodies, blue and blue chip corporates amongst their customer bases. Gladly there are several companies that fit this bill across a range of sectors amongst Hybridan's corporate clients.

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