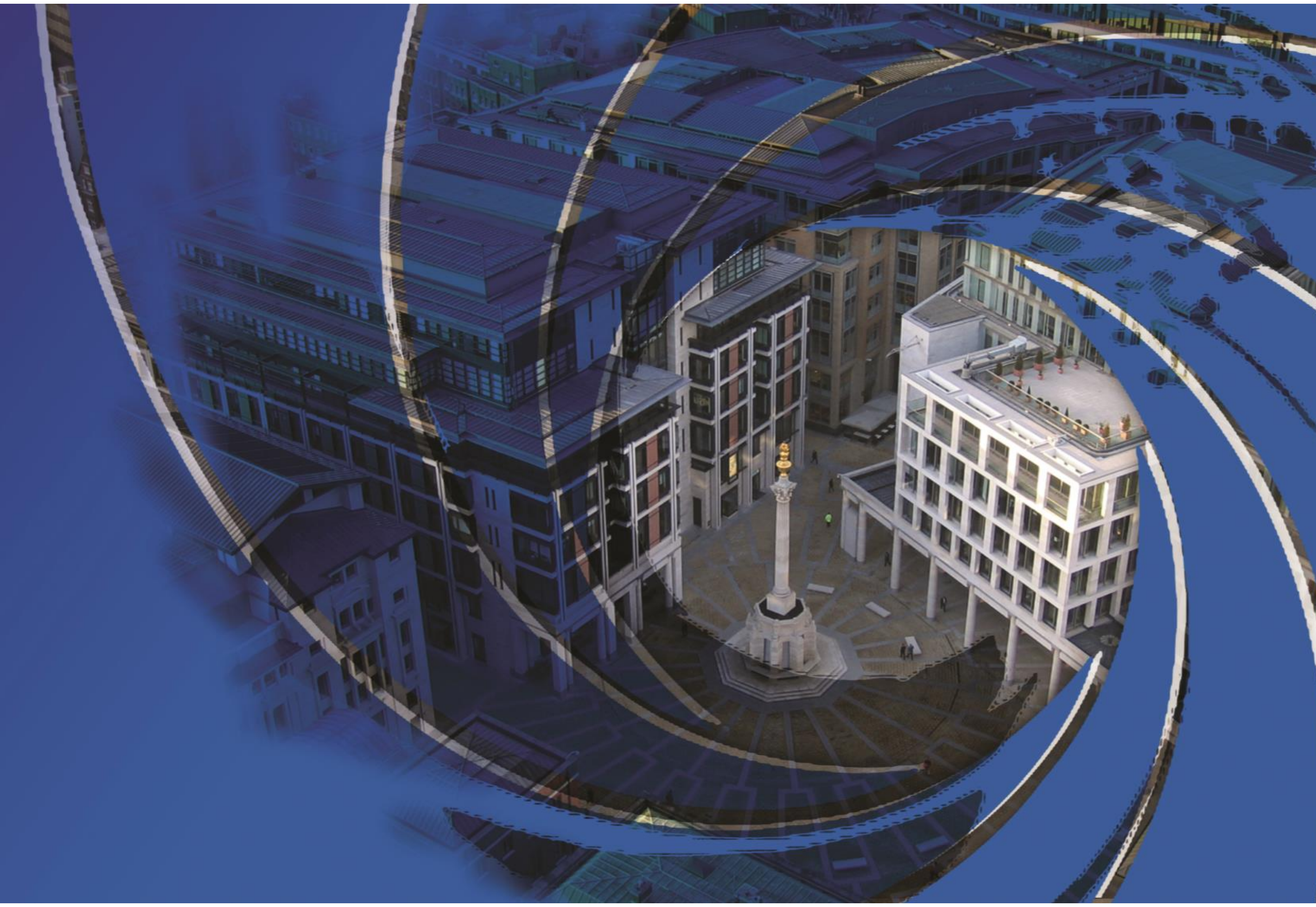
Centillion's London Capital Markets Newsletter

February 2014 Issue



CENTILLION

Technology and UK issues underpin solid year for London's markets. But will these trends continue in 2014?

By and large, 2013 proved to be a good year for the World's equity markets and London was no exception. London Stock Exchange figures show an aggregate of 131 new equity issuers coming to AIM (101) and the Main Board (30) over the course of the year. Notably, nearly half (47) of the year's AIM debutants joined the market between September and December as the threat of QE tapering eased.

Delving a little further into the detail of London's 2013 fortunes a couple of notable trends emerge. Firstly, domestic issuers accounted for a significant number of the year's new issues with over 75 of the new AIM admissions coming from the UK. Secondly, a resurgent appetite for technology stocks is evident with over 20 new companies coming to market in the technology space alone (not counting biotech and telecoms).

In general terms, the preponderance of new UK issues can be attributed to the more conservative investment climate that often prevails during a period of economic recovery. Embattled investors re-entering the markets stick to what they know best and eschew more exotic geographies as they get back to the business of deploying funds but with the recent wounds from more difficult times still fresh in their minds. This conservatism is also assisted by the fact that domestic companies often enjoy greater visibility with locally based investors in difficult times. As a result, such companies are then well placed to take advantage when the markets pick up having become well known to prospective backers. Moreover, any company that is sufficiently well placed to launch an IPO at such a time can usually point to the fact that it has weathered the downturn as validation of its business model and management team. If you are selling this story to someone familiar with your business this is both more credible and easier to validate.

In our view, the strong showing in the technology sector is illustrative of a return to more traditional sources of (potential) high growth and also a reflection of the successes of recent high profile IPOs by internet giants such as Facebook, Twitter and Linked In. However, it is also encouraging that a number of the year's technology successes have come from areas beyond the headline-grabbing social media arena.

The trends above are well illustrated by a couple of IPOs in which Stephenson Harwood was involved during 2013.

In November, Stephenson Harwood's client, Kalibrate joined AIM with a valuation of circa GBP35m raising over GBP13m along the way. Kalibrate is a Manchester-based hi-tech specialist providing fuel retailers with data and analysis tools that deliver insight into consumer demographics, market demand, traffic and competition thereby facilitating optimal price setting. Kalibrate's focus lies primarily in the US, Britain and Europe but it is also seeking to expand in markets such as China, India and Africa, where fuel prices are currently set by the state.

sh
STEPHENSON HARWOOD

In December, Stephenson Harwood was involved in Servelec Group's GBP122m Premium Listing on the Main Market - the UK's largest technology IPO in three years. Headquartered in Sheffield, Servelec operates two divisions: healthcare and automation. Servelec Healthcare specialises in the design, development and implementation of Electronic Patient Record software within secondary care settings and is a market leader in the Mental Health and Community Health sectors in England. Servelec Automation provides complex, mission-critical control systems to large, blue-chip companies mainly in the UK oil & gas, water, power, utilities and broadcast sectors. Stephenson Harwood advised Singapore SGX listed CSE Global on its divestment of Servelec.

Whether these twin trends continue into 2014 remains to be seen.

Our expectation is that there will be an upswing in the proportion of new issuers from overseas during 2014 as investors become more confident in the wider economic climate and start to look further afield for opportunities – both in order to diversify geographical risk and because many of the better UK opportunities will have been realised.

As regards the outlook for technology, we see this as continuing as the sector still offers good potential for rapidly scalable growth particularly with the explosion of opportunities in areas such as cloud computing, big data, business intelligence and analytics. Moreover, the revolutionary effects that technology is having in heavily populated developing countries looks set to continue and again offers exciting potential for companies with the right products.

Early signs of the evolution in these trends could already be seen in the latter stages of 2013 with the IPOs of Rapidcloud International (a Malaysian cloud computing and web hosting player) and SyQic (an over the top IPTV provider principally located in SE Asia). What will be interesting to see is whether these and other overseas technology players can do as well in the public company arena as Stephenson Harwood client, Fusionex International. Fusionex is Malaysia-based and an award winning international provider of enterprise software solutions and related services to multiple industry sectors. The company joined AIM in December 2012 and has since seen its market capitalisation quadruple to over GBP300m off the back of a strong performance in 2013 and, more recently, the launch of GIANT its new big data analytics product.

So in summary, the outlook for 2014 continues to look positive for the technology sector and we expect to see a rebalancing of the mix of domestic and international issuers on London's markets in favour of international companies.

Matthew Gorman
Partner, Corporate Finance
Stephenson Harwood
E: matthew.gorman@shlegal.com