IPO WATCH AUSTRALIA

A REVIEW OF AUSTRALIA'S 2021 IPO ACTIVITY

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ABOUT IPO WATCH AUSTRALIA

Established in 2004, IPO Watch Australia is a benchmarking-based report. The research, led by HLB Mann Judd Perth, analyses Australian listing activity over the previous 12-month period.

The report is authored by Corporate & Audit Services Partner, Marcus Ohm and co-written by Senior Manager, Nathan Rose. The report commentary articulates key data points and explores themes arising from market activity.

The annual IPO Watch Australia report is produced every January. It is followed by a short-form version which is released in July. The IPO Watch Mid-Year Report is a snapshot of listing activity during the first six months of the year.

IPO Watch Australia is widely recognised in the market and is routinely referenced by clients, national media and the broader business community.

Disclaimer – The analysis presented in this report relates to all initial public offerings (IPOs) that have resulted in the listing of an entity's securities on the Australian Securities Exchange (ASX) with the exception of compliance, backdoor listings and offers of non-equity securities.

The term “small cap” is used to refer to companies with a market capitalisation of no more than $100 million. All analysis by reference to market capitalisation on listing is based on the price at which new securities were issued.

While every care has been taken to ensure the accuracy of information contained in this report, we accept no liability for any error or omission, nor for any action taken in reliance on any statement or opinion in this report.

No statement or opinion in this report is intended to be construed as investment advice. Properly considered professional advice should always be sought if in doubt regarding the merits of any investment.

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CONTENTS

FOREWORD

Marcus Ohm
Partner
Corporate & Audit Services
Perth

A STRONG YEAR FOR NEW LISTINGS

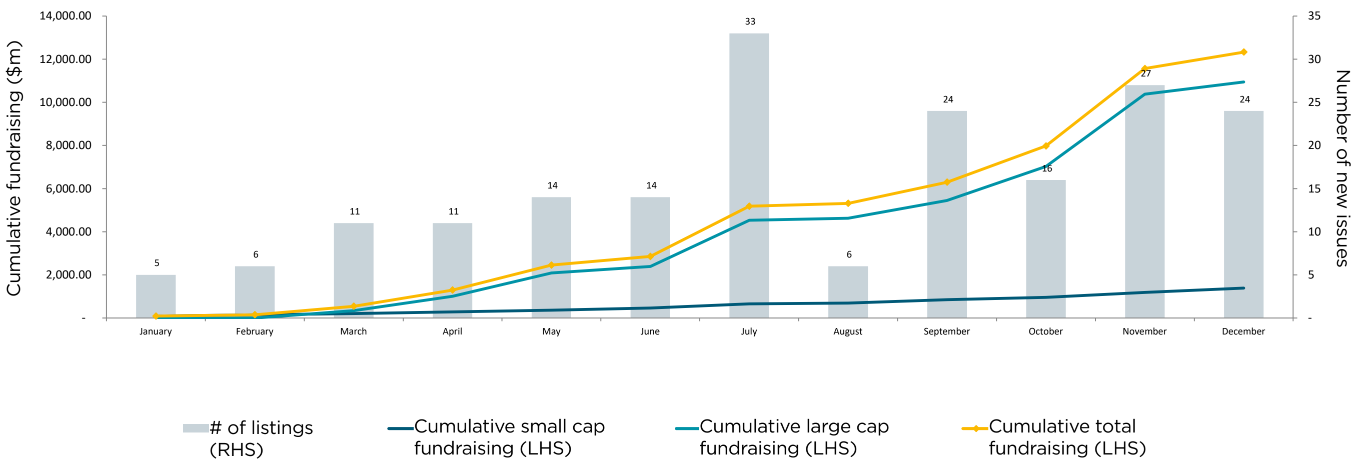
2021 proved to be an exceptional year for IPOs on many fronts with the market experiencing a surge of new companies coming to market. Following a strong end to 2020, the high levels of activity continued throughout 2021, particularly towards the end of the calendar year. This activity was driven by the availability of capital underpinned by attractive investment fundamentals, further supported by strong levels of sentiment and a buoyant share market. Share price performance subsequent to listing, whilst having individual outliers, was similarly positive on an average basis.

There was a total of 191 IPOs listing on the ASX in 2021 which was the highest number of new floats in the last decade and more than the previous two years combined. The volume of activity increased significantly in the second half of 2021 with 68% of new listings occurring in the final two quarters.

Total funds raised for the year was $12.33 billion. This was a significant increase compared to both the previous year of $4.98 billion, which was impacted in the early part of the year by COVID-19, and the total in 2019 of $6.91 billion. Whilst funds raised were up significantly, the average funds raised were similar to the previous year with new entrants raising $64.54 million on average, reflecting similar mixes of large and small cap companies.

Underlying the increase in amounts raised was the significant number of large companies listing with eight companies having a market cap on listing in excess of $1 billion. The three largest IPOs in 2021 raised $3.34 billion in total, representing 27% of the total funds raised for the year. The largest listing in 2021 was GQG Partners Inc, a global fund manager, raising $1.19 billion in funds.

IPO VOLUMES AND FUNDS RAISED



A total of 145 small cap entities completed their IPOs during the year which is almost double the five-year average. As a proportion of all listings for the year, small cap listings represented 76% of the total number of new market entrants. The IPO market for small cap companies (entities with a market cap less than $100 million) was dominated by the Materials sector. Materials companies made up 68% of all small cap listings.

The steep rise in the number of small cap listings saw $1.38 billion raised by these companies (or 11% of the total funds raised). This was an increase compared to 2020 when small caps raised a total of $370.89 million (or 7% of the total funds raised). The most active market segment for the year was the $10-25 million bracket, with 70 listings making up 48% of all small cap listings.

The smallest market entrants (those with a market cap below $10 million) saw 25 successful listings in 2021 compared to just five in 2020. These very small listings contributed $126.64 million to the total funds raised and were entirely represented by the Materials sector.

Whilst the strongest performing industry sector continued to be the Materials sector with 107 new market entrants during the year (2020: 24 new listings), this represented only 18% of total funds raised. There was a healthy spread across all industry sectors in 2021 and a total of 13 segments had three or more listings during the year. Of these, Software & Services had nine IPOs, and Pharmaceuticals, Biotechnology & Life Sciences, Commercial & Professional Services, Diversified Financials and Capital Goods each had eight new entrants.

Supporting the levels of available capital in the market was the increase in subscription rates, with 87% of IPOs able to meet or exceed their capital raising goals compared to the five-year average of 83%.

IPOs in 2021 on average experienced a strong share price performance subsequent to listing. New market entrants recorded an average first day share price increase of 20% (22% within the small cap sector).

Of new listings, 115 companies, or 60% of all IPOs during 2021, ended their first day above their listing price.

The strong day one performance was maintained at the end of the year with an average increase in share price of 17% across all new IPOs. This is also reflective of wider market performance, with the ASX All Ordinaries Index steadily growing during the year before flattening in the December quarter. These averages hide the fact of individual outliers during the year, with 50 companies recording a year end gain of 20% or more. Top individual performers included Kuniko Limited (+478%), Global Lithium Resources Limited (+375%) and Lithium Energy Limited (+365%). Conversely, 57, or 30%, of all IPOs recorded a year end loss of 20% or greater.

In terms of the pipeline, at the date of the report, 27 companies had applied for listing seeking a total of $250 million. This is a substantial increase when compared to the $172 million sought at the same time last year. These numbers suggest IPO activity will remain strong in the new year, especially for Materials listings.

“THERE WAS A TOTAL OF 191 IPOs LISTING ON ASX IN 2021 WHICH WAS THE HIGHEST NUMBER OF NEW FLOATS IN THE LAST DECADE AND MORE THAN THE PREVIOUS TWO YEARS COMBINED.”

Marcus Ohm, Partner,
Corporate & Audit Services, Perth

2021 SNAPSHOT

191 LISTINGS
74 listings in 2020

$12.33 BILLION RAISED
$4.98 billion in 2020

20% AVERAGE DAY ONE GAIN
31% in 2020

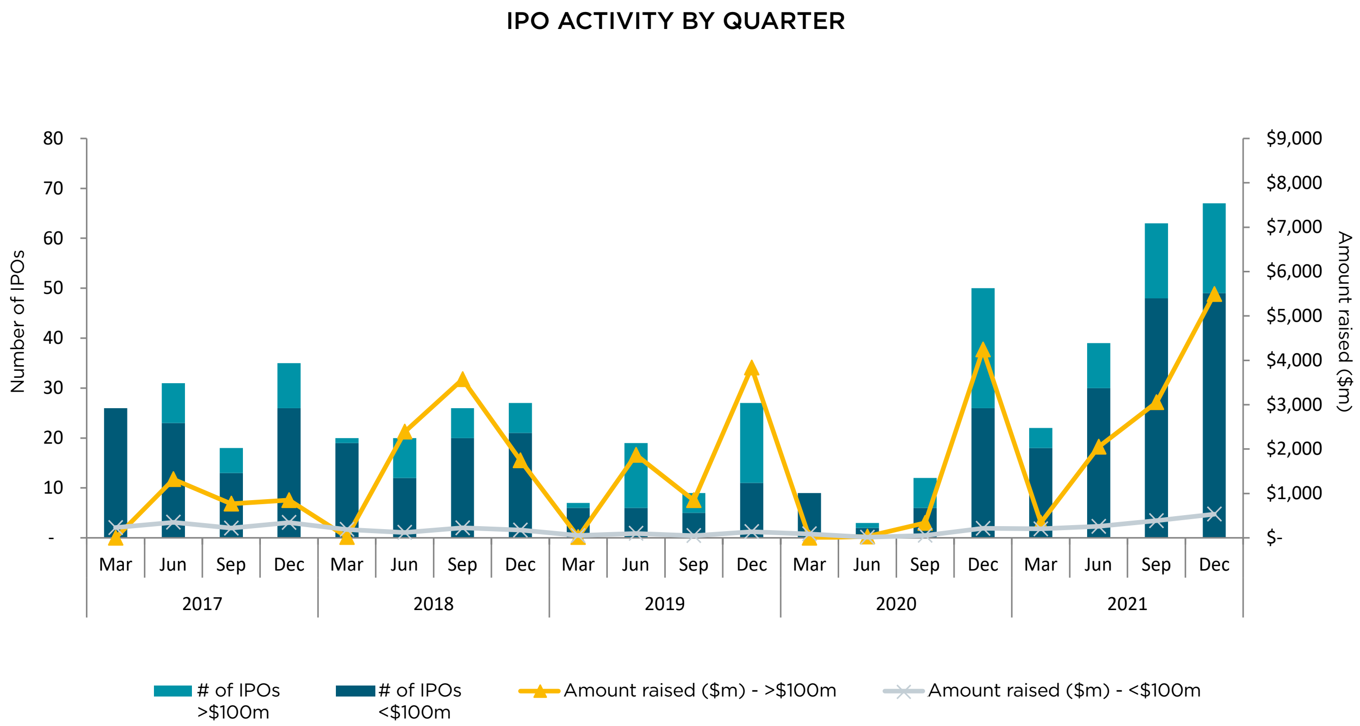
145 SMALL CAPS
43 listings in 2020

107 MATERIALS LISTINGS
24 listings in 2020

17% AVERAGE YEAR END GAIN
34% in 2020

IPO ACTIVITY BY QUARTER

STRONG VOLUMES THROUGHOUT THE YEAR



Following the strong end to 2020, listing activity continued to grow throughout 2021, particularly during the second half of the year. This trend looks set to continue into early 2022 based upon upcoming floats.

There were 61 new entrants in the first half of 2021, which is a historically strong performance for this period. The new entrants raised $2.85 billion of total funds.

However, it was the September and December quarters which demonstrated record-high levels of activity, with 63 and 67 IPOs respectively. This was an outstanding performance when compared to past years (2020: 74 listings in total and 2019: 62 listings in total for the year). In particular, the December quarter's total funds raised was $6 billion, which was nearly half of all funds raised for the year. This activity was led by GQG Partners Inc (ASX: GQG, $1.19 billion raised) and Pexa Group Limited (ASX: PXA, $1.18 billion raised).

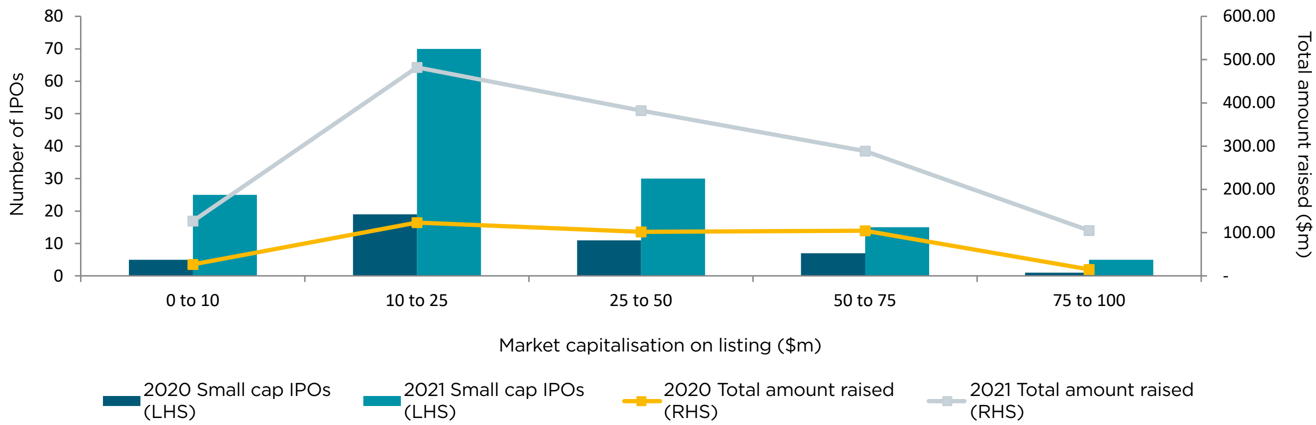
Interestingly, a similar number of large cap companies listed in each quarter during the year.

For those companies listing in the December quarter, share price growth on listing price was a 3% gain on average. The strongest performing quarters were the June quarter with an average year end gain of 40% followed by the September quarter with an average 23% gain. A total of six of the seven strongest market performers, with year end gains of greater than 200%, came from the June quarter listings. Day one gains were consistently strong throughout the year, each quarter averaging at least 10% gains peaking at 35% average increase for the March quarter.

IPOs BY MARKET CAPITALISATION

SIGNIFICANT GROWTH IN SMALL CAP LISTINGS

NUMBER OF SMALL CAP IPOs BY MARKET CAPITALISATION



2021 saw significant growth in the number of small cap IPOs listing during the year. There was a total of 145 new small cap listings compared to 43 in the prior year, with small cap companies making up 76% of all new listings in the current year and 11.2% of total funds raised. This contrasts with the trend of recent years where new small cap IPOs averaged 67% of all new entrants over that period.

The increased number of listings was most apparent within the $10-$25 million bracket, with 70 listings in the current year, an increase on the previous year's 19 companies. The Materials sector has primarily driven this rise making up 77% of the listings in this bracket. This market segment performed well from a share price perspective recording average gains of 19% by year end, second only to the $25-$50 million bracket which recorded average gains of 30% by year end. In contrast the five listings in the $75-$100 million bracket recorded average first day and year end losses.

In terms of large cap listings, new market entrants increased from 31 in the prior year to 46 new listings, reflecting the most activity by this segment in the past decade.

Underlying the increase in amounts raised was the significant number of $1 billion plus (in terms of market capitalisation) companies listing in 2021 with eight listings in total representing 47% of the total funds raised for the year. The listings were largely represented by financial entities, with two listings each from the Banks and Diversified Financials sectors. These very large IPOs have had mixed performances since listing with half of the listings recording an average year end loss.

LARGEST SMALL CAP IPOs BY AMOUNT RAISED

Code	Company	Industry	Amount raised ($m)	Market cap ($m)
CHM	Chimeric Therapeutics Limited	Pharmaceuticals, Biotechnology & Life Sciences	35.0	66.1
AVD	Avada Group Limited	Commercial & Professional Services	32.5	73.3
E33	East 33 Limited	Food, Beverage & Tobacco	32.0	55.5
AR1	Austral Resources Australia Ltd	Materials	30.0	89.1
FAL	Falcon Metals Ltd	Materials	30.0	88.5
RTH	RAS Technology Holdings Limited	Commercial & Professional Services	29.0	68.1
WIN	Widgie Nickel Limited	Materials	24.0	50.0
GT1	Green Technology Metals Limited	Materials	24.0	49.4
5GG	Pentanet Limited	Telecommunication Services	22.5	65.8
TRP	Tissue Repair Ltd	Pharmaceuticals, Biotechnology & Life Sciences	22.0	69.5

SECTOR ANALYSIS

MATERIALS SECTOR DOMINANT

The year was dominated by listings from the Materials sector which contributed 107 new listings or 56% of all floats, 99 of which were small cap listings. Despite this concentration of Materials listings, there were other sectors which had good activity levels in comparison to previous years. A total of 13 segments had three or more listings during the year.

There were 21 different industry sectors represented during 2021 compared to 15 sectors in 2020.

The more significant of these were Software & Services with nine new market entrants, together with eight listings each for Pharmaceuticals, Biotechnology & Life Sciences, Commercial & Professional Services, Diversified Financials and Capital Goods. In terms of average funds raised, the more significant IPOs were in the Real Estate sector ($577.59 million, four listings) and the Banks sector ($578.87 million, two listings).

Interestingly, there were 12 foreign listings during the year compared to nine in 2020, with four of these listings being from the Materials sector. There were also five new listings with operations in the USA.

All of these listings met their subscription targets. There were two Israeli-based listings during the year in the Software & Services segment, Gefen International A.I. Ltd (ASX: GFN) and Way 2 Vat Ltd (ASX: W2V).

A total of 13 of the 21 industry sectors enjoyed average year end gains in terms of share price performance with 17 sectors recording average first day gains for their listings. Looking at the average year end performance for other sectors with more than five IPOs for the year, they were Materials (26% gain), Software & Services (23% loss), Pharmaceuticals, Biotechnology & Life Sciences (37% gain), Capital Goods (34% gain), Retailing (10% gain), Commercial & Professional Services (14% loss), Health Care Equipment & Services (4% gain) and Diversified Financials (25% loss).

TOP PERFORMING SECTORS IN 2021

Materials
107 listings
24 listings in 2020

Software & Services
9 listings
9 listings in 2020

Pharmaceuticals, Biotechnology & Life Sciences
8 listings
5 listings in 2020

Commercial & Professional Services
8 listings
1 listing in 2020

Diversified Financials
8 listings
4 listings in 2020

Capital Goods
8 listings
5 listings in 2020

SECTOR ANALYSIS - ALL LISTINGS VS SMALL CAP

	All Listings				Small Cap Only			
	2021		2020		2021		2020	
Industry	Number	Amount Raised ($m)	Number	Amount Raised ($m)	Number	Amount Raised ($m)	Number	Amount Raised ($m)
Automobiles & Components	-	-	-	-	-	-	-	-
Banks	2	1,158	-	-	-	-	-	-
Capital Goods	8	547	5	245	3	22	2	14
Commercial & Professional Services	8	1,092	1	66	7	110	-	-
Consumer Durables & Apparel	1	7	-	-	1	7	-	-
Consumer Services	4	936	1	30	1	17	-	-
Diversified Financials	8	1,859	4	487	4	37	-	-
Energy	5	92	1	9	4	31	1	9
Food & Staples Retailing	-	-	-	-	-	-	-	-
Food, Beverage & Tobacco	2	238	4	136	1	32	2	19
Health Care Equipment & Services	6	638	7	327	2	14	3	27
Hotels, Restaurants & Leisure	-	-	-	-	-	-	-	-
Household & Personal Products	2	25	1	7	2	25	1	7
Insurance	1	63	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-
Materials	107	2,180	24	197	99	822	24	197
Media	2	102	3	180	1	18	1	15
Pharmaceuticals, Biotechnology & Life Sciences	8	314	5	72	5	82	4	27
Real Estate	4	2,310	-	-	-	-	-	-
Retailing	6	440	7	671	3	38	-	-
Semiconductors & Semiconductor Equipment	-	-	-	-	-	-	-	-
Software & Services	9	117	9	1,227	7	67	5	57
Technology Hardware & Equipment	3	84	-	-	1	8	-	-
Telecommunication Services	1	22	1	40	1	22	-	-
Transportation	3	90	1	1,286	2	20	-	-
Utilities	1	14	-	-	1	14	-	-
Total	**191**	**12,328**	**74**	**4,980**	**145**	**1,386**	**43**	**372**

IPO SUBSCRIPTION RATES

STRONG SUPPORT FOR NEW LISTINGS

New floats were generally well supported in 2021 with 87% of all IPOs meeting their subscription targets, an increase on the five-year average of 83%. Total funds raised during the year were, on average, 99% of their targeted subscription amounts (2020: 100%).

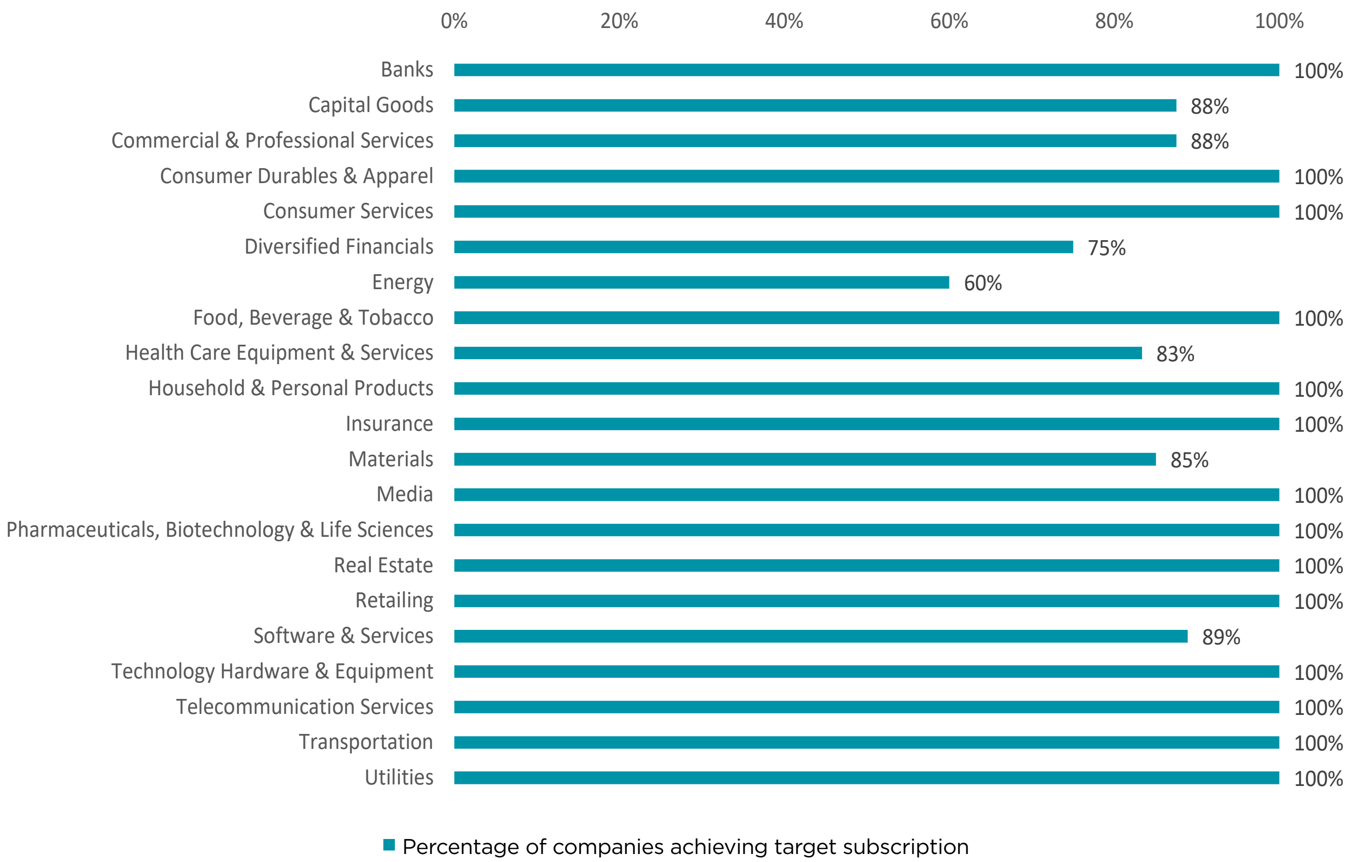
The large cap segment contributed strongly to overall subscription rates with 44 of 46 large cap companies in total obtaining or exceeding their goals. Small cap listings also performed well with 85% of all listings meeting subscription targets. Of the 24 listings that did not meet their subscription target, 13 were small cap listings with a market capitalisation on listing of $25 million or less.

The Materials sector had the most listings failing to achieve a full subscription representing 66% of all listings that were unable to meet their target. Other sectors with multiple listings which did not meet their target were the Diversified Financials and Energy sectors with two listings each.

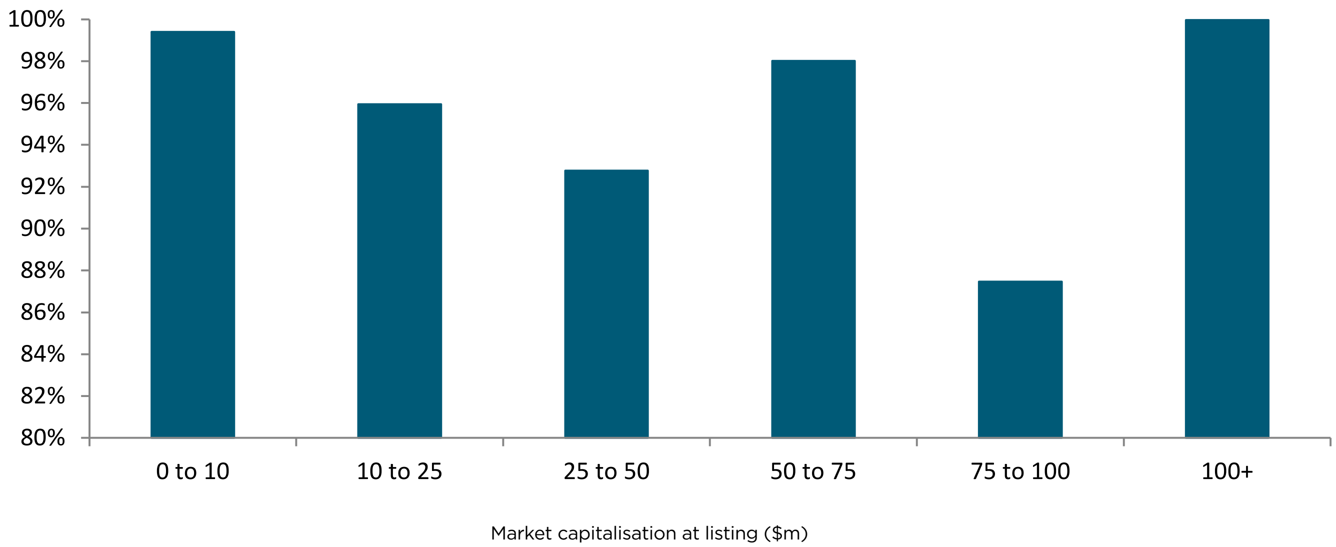
A total of 27% of all IPOs for the year were underwritten or partially underwritten offers compared to 50% in 2020, and of these 96% met their subscription targets. The level of underwriting is down compared to the five-year average of 34% which is an expected result given current capital market conditions. This is reflected in the fact that offers that weren't underwritten still performed well with 84% of these offers meeting their target.

IPOs that met their subscription targets had a solid performance with average first day gains of 23% steadying at an average year end gain of 19%. For those that didn't meet their subscription target, in line with trends in previous years, they performed poorly on the first day with an average 4% loss. Encouragingly though, these listings rebounded with an average year end gain of 1%.

% OF SUBSCRIPTION TARGET ACHIEVED BY SECTOR



% OF SUBSCRIPTION TARGET FUNDS ACHIEVED[1]

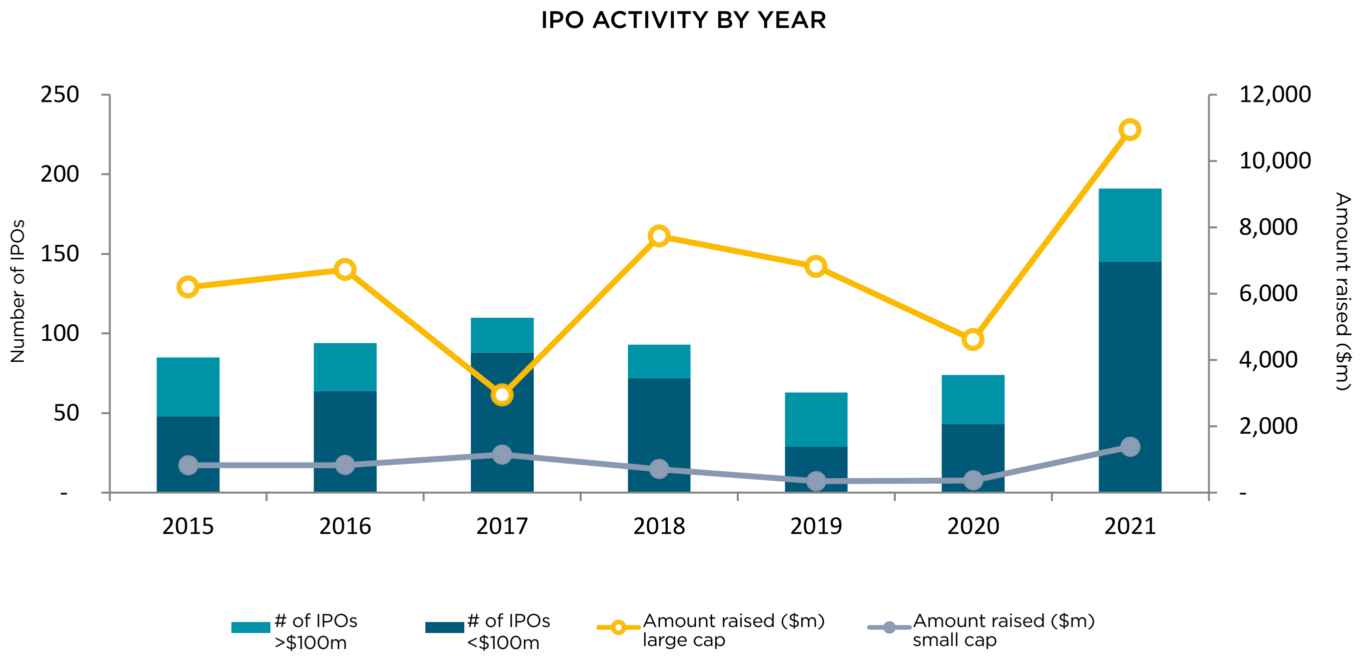


[1] Based on the funds target being the midpoint of any allotment range (some companies do not have a range). This means actual fundraising can exceed "targeted" fundraising (i.e. oversubscription).

SECTORS WITH 100% OF COMPANIES ACHIEVING SUBSCRIPTION TARGETS

IPO ACTIVITY BY YEAR

STRONG VOLUMES AND FUNDS RAISED



THE ROAD AHEAD

AUSTRALIA'S 2022 IPO OUTLOOK

There was a significant number of IPOs which came to market in the final quarter of 2021, and the pipeline continues to look strong for early 2022. There were 27 companies which had applied for listing to the ASX at year end, a significant increase from the 14 that had applied at the same time last year. These companies are hoping to raise $250.4 million in total, an increase from the $171.0 million sought the previous year.

The pipeline reflects the dominance of the Materials segment during 2021 with 17 of these proposed listings and 45% of the funds being sought coming from the sector. A total of 76% of the proposed Materials listings relate to gold projects. Although gold prices dropped in 2021, it continues to remain strong, particularly when compared to past years. Technology listings had five applications at year end seeking only $63 million in total funds, a similar amount to the pipeline in late 2020.

The other sector with multiple applications in the pipeline is the Consumer Services sector with three applications.

There are no proposed IPOs of any significant size in terms of funds raised. The largest proposed listing in the pipeline is US Student Housing REIT which holds and manages a portfolio of student housing real estate assets in the United States. The company is seeking $45 million. The only other proposed listing looking to raise over $25 million is Beforepay Group Limited, operating in the pay-on-demand industry and seeking to raise $35 million.

SHARE PRICE PERFORMANCE

POSITIVE PERFORMANCE OVERALL

New entrants performed well in 2021 on average in terms of share price performance. Whilst the overall performance was positive, there was significant outperformance and underperformance from certain entities.

A total of 86 of the 191 listings for the year recorded a year end gain over listing price. On average, companies recorded a 17% share price gain over their issue price by the end of the year, with 22 listings recording a gain of 100% or greater for the year. The average share price performance by new floats was in line with the market generally, with the All Ordinaries increasing 11% in value for the year. Many new market entrants underperformed during the year, with 57 or 30% of the IPOs recording a year end loss of 20% or greater.

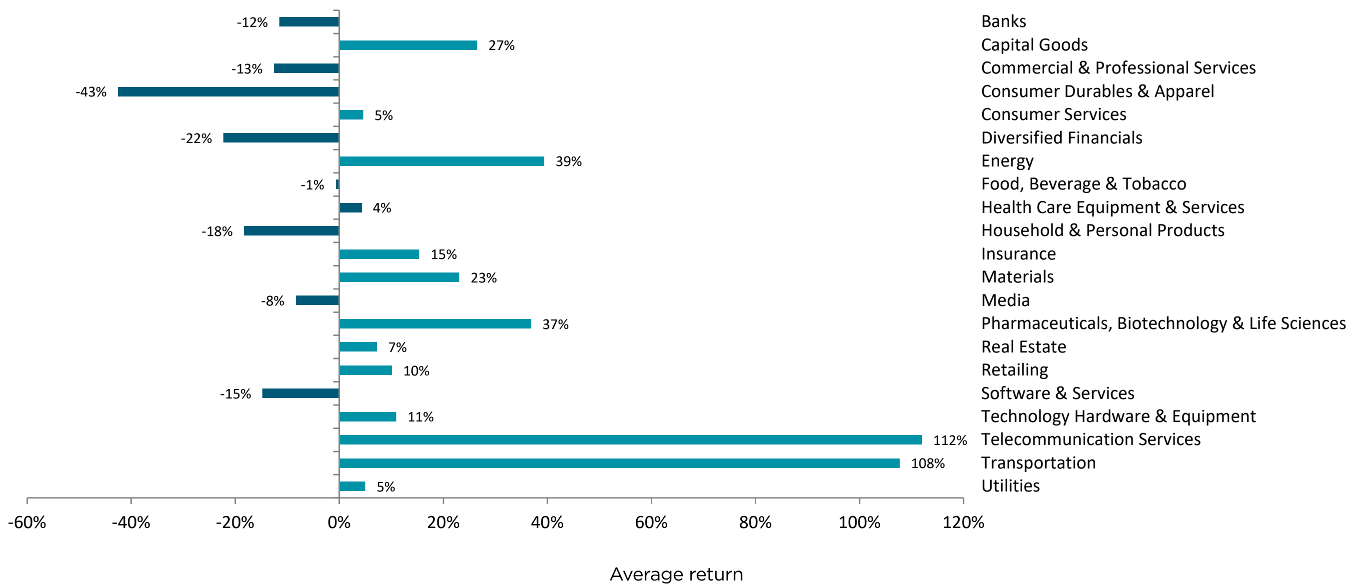
In terms of first day performance, a total of 115 companies recorded first day gains (2020: 55). Twelve of these listings had a first day gain of at least 100%, led by small cap entrants Kuniko Limited (ASX: KNI, 325% day one gain) and Evolution Energy Minerals Limited (ASX: EV1, 210% first day gain). Notably, 65 IPOs had poor first day price performance which was generally also the case at year end with only seven of these companies able to subsequently record a year end gain.

Overall, small cap listings tended to outperform large cap listings with average increases on listing price of 19% by year end compared to 10% for the large cap listings. This compares to the prior year where small cap listings recorded an average year end gain of 46%.

Despite more modest average year end gains by the large cap stocks, there were also some strong performers with DGL Group Limited (ASX: DGL, +213%) being the standout large cap result.

The Transportation sector performed well in 2021 with an average year end gain of 108% for its three listings. Energy also outperformed other sectors with an average year end gain of 39%, up from 2% in 2020. The sole listing for the Telecommunication Services sector was also a standout with Pentanet Limited (ASX: 5GG) having a first day gain of 136% on issue price, and a gain of 112% by year end.

2021 IPO SHARE PRICE PERFORMANCE BY INDUSTRY[1]



[1]Reflects the overall gain from a notional investment of $1 in each IPO, based on the share price at 31 December 2021.

RESOURCES SECTOR ANALYSIS

WESTERN AUSTRALIA DOMINATES THE MARKET

The Resources sector, comprising of both materials and energy companies, contributed a substantial number of IPOs during 2021. Overall, there were 112 new resources listings for the year raising a total of $2.27 billion in new capital. These listings were weighted towards the second half of the year with funds raised during this period totalling $1.62 billion. This was heavily influenced by the listing of 29Metals Limited (ASX: 29M) which raised $527.8 million.

Share price performance post-listing from resources companies was excellent with resource IPOs recording an average first day gain of 18% and an average gain by the end of the year of 24%.

On a state-by-state basis, the largest contributor was Western Australia with 84 new resource listings across the year raising a total of $936.53 million in the process. West Australian listings had strong gains of 22% from both a first day and year end perspective. The strongest year end gains were recorded by Victoria (10 listings, 57% average year end gain) and South Australia (two listings with rare earth projects, 92% average year end gain). New South Wales also had a significant number of resource listings with 12 IPOs raising $574.61 million between them, but recorded an average first day loss of 6% holding to an average year end loss of 5%. The other traditional mining state of Queensland only had four listings.

Subscription rates were solid with 84% of the amounts sought being raised successfully across all listings.

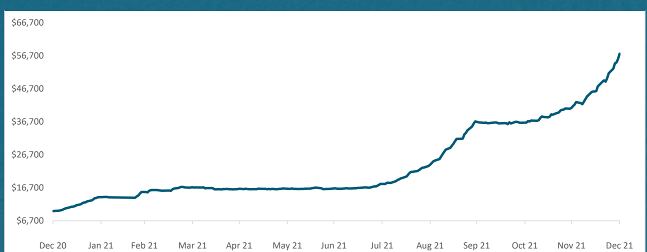
The June and September quarters performed the best in terms of year end gains being 62% and 32% respectively. It was the March quarter that saw the worst year end share price performance against listing price with an average loss of 1%. The December quarter listings recorded a modest 3% average year end gain.

Resource IPOs were heavily weighted towards gold with 60 of the 112 listings having significant gold projects (including polymetallic explorers seeking multiple commodities). This aligns with gold commodity pricing which remains strong looking at a five-year average despite a slight decrease in the current year. Copper projects appeared in 31% of resource IPOs. Lithium stocks also had a strong showing with 10 listings having lithium projects. As an outstanding result, six of these lithium listings recorded average year end gains of over 100%, aligning with strong lithium commodity price growth in the second half of the year. The standout lithium performers were Global Lithium Resources Limited (ASX: GL1, year end gain 375%) and Lithium Energy Limited (ASX: LEL), year end gain 365%). Investors in these listings were justly rewarded and it demonstrates that there is money to be made in predicting the next 'in demand' commodity.

There are 17 listings in the pipeline so far for 2022 which is a significant proportion of the overall pipeline at the date of this report.

Brad McVeigh
Partner
Audit & Assurance
Perth

LITHIUM CARBONATE ($/T) - 2021 PRICE HISTORY



GOLD ($USD/OUNCE) - 2021 PRICE HISTORY

CASE STUDY EAST 33

Listing during a global pandemic had some surprising upsides for East 33 (ASX: E33), a leading producer and supplier of Sydney rock oysters. It listed on the ASX on 26 July 2021, raising $32 million.

The company was founded in 2019, bringing together 10 founding farmer families to create Australia's largest Sydney rock oyster producer, processor and supplier. Its operations cover all aspects of the industry from hatchery, nursery and production to shucking and sales, including restaurant programs and international trade.

James Garton, CEO of East 33, says that independent oyster farmers have faced a number of challenges in recent years, including a shortage of labour as workers move to cities.

"The strategy behind East 33 was to provide these businesses – some of which had been operating for over 100 years and which were primarily family businesses – with the structure and support they needed to continue growing and thriving.

"An integral component of this strategy was to undertake a public listing that would provide the capital support to achieve the growth plans, in particular expanding internationally."

While East 33 considered other funding options, such as private equity, it decided that it wanted to maintain a level of Australian ownership and control.

"We felt that, as a distinctly Australian business, listing on the Australian Securities Exchange was a more appropriate strategy for us. Sydney rock oysters only grow at a latitude of 33 degrees, comprising just 41 locations on the east coast of Australia, so remaining an Australian based company is very fitting," Mr Garton said.

The initial plan was to list in late 2020, but the impact of the COVID-19 pandemic, and other developments including regulatory changes and international trade wars, meant the IPO was delayed to mid 2021.

"The outbreak of the pandemic, unsurprisingly, had a pretty dramatic impact on our plans and on the business, although we were always confident that it only meant a delay in listing.

"Indeed while there were challenges – such as our primary market of restaurants going into lockdown – at the same time there were also a number of upsides to listing during a pandemic.

"For instance, late in 2020 the government passed legislation allowing digital signatures to be used, which was hugely beneficial when considering the enormous amount of documentation required for the listing process. While this was only a temporary measure, we think it is one that should be permanently introduced.

"Another benefit was that holding roadshows virtually, rather than in person, was extremely efficient and meant that logistics and timings ran very smoothly.

"Furthermore, while undertaking an IPO during a global pandemic is probably no-one's first choice, it did prove the resilience of our business model to our market – we were stress-tested to the extreme but were still able to grow the business during the process with the addition of two more farmer businesses prior to the final listing date, and to undertake a successful IPO."

In terms of the IPO process, Mr Garton said that while it is very time-intensive, businesses that are considering listing shouldn't be too daunted by the concept.

"The process is time-consuming and demanding but it's not difficult, especially if you have the right teams, both internally and externally.

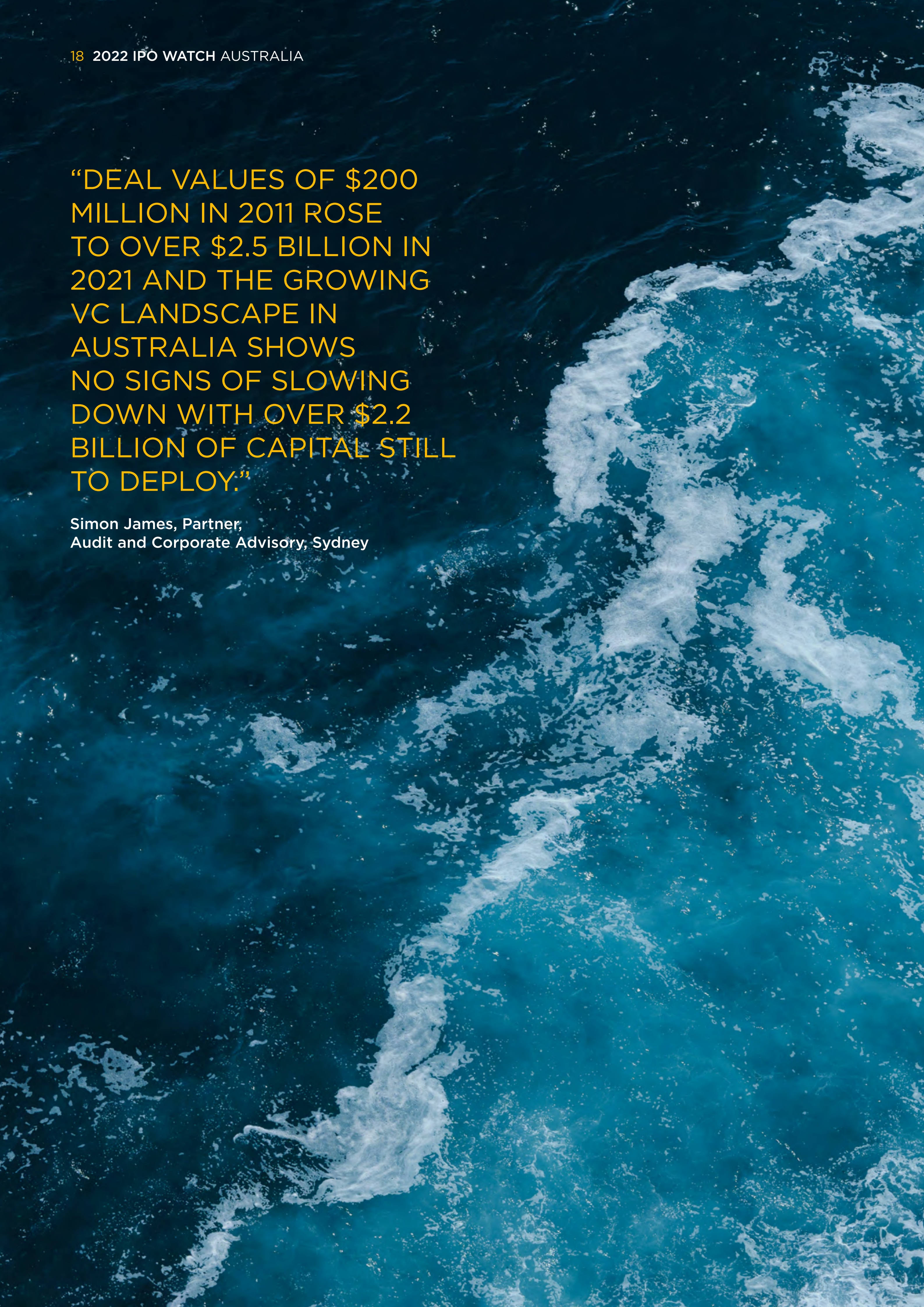
"Our structure meant that we have a second layer executive team whose primary responsibility and focus remained on running their own operations and day to day business activities. And with the right project management team and advisers, we found the process flows without as much distraction as you may think.

"In this, Lucio Di Giallonardo and his team at HLB Mann Judd in Perth were instrumental. They provided practical and expert advice and support, while displaying a level of integrity that was outstandingly good. There was a number of highly complex technical issues involved in the listing process and they found solutions to workshop with us and were always realistic and supportive in what we wanted to achieve."

Since listing, East 33 has realised a number of its growth strategy plans, including investing in the current oyster farms to improve processes such as hatchery and production.

"In addition, there have been intangible benefits to going public," Mr Garton said.

"For example, the perception among staff has shifted, changing from seeing themselves in a job, to seeing a career ahead. It has also had a positive impact on our relationships with suppliers and our community, helping them to see our business as stable and with a strong future."



"DEAL VALUES OF $200 MILLION IN 2011 ROSE TO OVER $2.5 BILLION IN 2021 AND THE GROWING VC LANDSCAPE IN AUSTRALIA SHOWS NO SIGNS OF SLOWING DOWN WITH OVER $2.2 BILLION OF CAPITAL STILL TO DEPLOY."

Simon James, Partner,
Audit and Corporate Advisory, Sydney

Simon James
Partner
Audit and Corporate Advisory
Sydney

VENTURE CAPITAL: THE BUSINESS OF FUNDING IN 2021

Venture capital (VC) is an integral part of the Australian economy, continuing to shape the business landscape at an increasing pace.

In Australia it has been instrumental in the introduction and growth of some well-known companies such as Canva, Atlassian, Austral, Afterpay and Seek, to name a few. The most notable investments continue to pour into the Technology sector while finance and insurance-related start-ups are also taking up a significant chunk of investment interest.

The VC landscape is historically associated with Silicon Valley; however, the last 10 years have seen an increasing globalised shift. Whilst the US continues to be a significant player in the VC space, Australia's share is rising and is fifth in the Global Entrepreneurial Index (GEI)[1]. Deal values of $200 million in 2011 rose to over $2.5 billion in 2021 and the growing VC landscape in Australia shows no signs of slowing down with over $2.2 billion of capital still to deploy.

A stable economic and political environment combined with the government's strong response to COVID-19 have increased investor confidence and set us apart from other economies. Traditionally, Australia's geographic dispersion of economic activity may have been a barrier to the development of a sophisticated global VC ecosystem (unlike clusters in the US such as Silicon Valley and Boston). However, with changes in government policies as well as the impact of COVID-19 to accelerate digitisation and embrace remote working, geographic barriers are no longer a deterrent to investors.

We are likely to see continuous growth in the EdTech, FinTech and Cloud SaaS platforms in the future, however, border closures and immigration restrictions have resulted in an acute shortage of tech skills resulting in early funding rounds due to higher salaries. Further investment by the Federal Government in implementing the latest 'Digital Economy Strategy' will continue to see money flowing into the tech sector. Recent data for 2021 indicates a slight drop in technology investments making way for diversified investments in the health and services sectors.

Venture capital in Australia is supported by federally funded programs which encourage investment in venture capital funds by providing incentives and tax exemptions to investors. The programs include the Early Stage Venture Capital Limited Partnerships (ESVCLP) and Venture Capital Limited Partnership (VCLP). Typically, ESCVLP funds attract local institutional investors whereas VCLP funds are preferred by international investors.

IT and Services sectors have the greatest investment amount by ESVCLPs while VCLPs have their largest investments in Services, Manufacturing and Health Care & Social Assistance sectors, according to the recently released venture capital data by the Australian Government. The main sources of funding for VCLP's excluding Australia are from US and Cayman Islands. The financial year ended 30 June 2021 saw a significant increase in ESVCLP investments in the Start-up and Seed stages compared to the previous periods which was dominated by rising investment in the early expansion stages.

As the VC ecosystem in Australia is still young, there is immense opportunity to strategically invest in areas such as the climate sector, sustainable investing and female-founded businesses, which will influence change in the business dynamic into the future. The rise of investment in Start-up and Seed stages indicate that the market for 2022 is ripe for entrepreneurs as investors chase companies with strong product fits and pre-revenue start-ups.

[1] https://thegedi.org/global-entrepreneurship-and-development-index/

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THE ESG AGENDA

HOW IT WILL IMPACT IPOs IN 2022 AND BEYOND

Environmental, Social and Governance (ESG) factors have become increasingly significant with businesses across all sectors recognising their importance in building trust with stakeholders and achieving long term success.

Employees, customers, investors, investment managers, lenders, rating agencies and government regulators are demanding that businesses consider how their operations are combatting issues such as climate change, workplace safety and equal opportunity.

ESG CONSIDERATIONS IN INVESTMENT DECISIONS

Environmental
- Renewable fuels
- Climate risk
- Greenhouse gas emissions
- Energy efficiency
- Water management
- Recycling processes
- Population growth
- Emergency preparedness

Social
- Health & safety
- Human rights
- Working conditions
- Employee relations
- Inclusion & diversity
- Impact on local communities

Governance
- Ethical standards & corporate behaviour
- Board diversity & structure
- Stakeholder engagement
- Executive compensation
- Shareholder rights

Source: World Economic Forum

Lessons learnt

The COVID-19 outbreak has revealed many businesses are both resilient and nimble. They demonstrated they could quickly adapt to new working conditions which were created by the pandemic (i.e. remote working via the greater use of technology, electing to protect jobs through government support, looking after staff and observing health directives). For many this was the first pivot towards an ESG-centric business.

Businesses have also recognised the importance of being genuine and authentic in their dealings with all stakeholders and being more transparent than ever before in how they communicate. These are all valuable lessons which businesses will need to capitalise on and continue to apply.

With increased transparency comes opportunity. An ESG-centric business is likely to attract investors as well as talent. For example, people new to the workforce are seeking to align themselves with companies that support their values. Likewise, investors are increasingly demanding that companies show they are directing funds in ways that protect the environment and communities in which they operate.

What does it all mean?

Being ESG-centric is no longer a choice. It is important that all businesses start to embrace these factors and make the necessary pivot if they are to remain relevant.

Therefore, companies looking to undertake a public listing need to be transparent and clearly communicate the ESG fundamentals that they have applied and/or are intending to apply in their prospectus, as well as being authentic and open in how they deal with their stakeholders.

Currently EU law requires large public companies to disclose information on the way they operate and manage social and environmental challenges. In 2021 a proposal for a Corporate Sustainability Reporting Directive (CSRD) was presented to the EU. If passed the directive will extend sustainability reporting requirements to all large companies and all listed companies. Australian companies should be mindful that this framework will be closely monitored by local regulatory authorities.

While Australia does not have compulsory sustainability reporting, companies are required to disclose any information that shareholders would reasonably need to make informed investment decisions. There are also recommendations on corporate governance practices around environmental and social risks for publicly listed companies in Australia. Common examples of requirements we have seen include meeting stated minimum local content (both materials and labour), the Workplace Gender Equality Act, voluntary compliance with the Modern Slavery Act, having and observing the requirements of a corporate social responsibility framework (CSR).

Steps to be taken

ESG should be considered a cornerstone of the business. It is imperative that businesses take a strategic approach to ESG. Those charged with governance (i.e. the Board of Directors) must consider ESG fundamentals in the company strategy and accept that they are responsible for driving the transition to being more environmentally and socially responsible.

Similar to all other changes implemented by businesses, the process of change will necessarily encompass a detailed analysis to examine the merits of altering the product/service offerings and the process of doing business. This includes processes, operations and supply chain management, level of local content, amongst other factors.

For companies considering listing, the ASX has provided commentary recommendations which refer to a 2015 Guide for Australian Companies, the UN Global Compact Ten Principles and the International Integrated Reporting Council. These should be carefully reviewed by the Board and company advisers.

PAST TRANSACTIONS

HLB MANN JUDD IS PROUD TO HAVE ASSISTED IN THE FOLLOWING TRANSACTIONS IN THE PAST 12 MONTHS

PANTERA MINERALS

EQUINOX RESOURCES

ASKARI METALS LIMITED

DIABLO RESOURCES

INDUSTRIAL MINERALS LTD

Minerals 260

WMG WESTERN MINES GROUP

Falcon Metals

Winsome Resources LIMITED

ABOUT HLB MANN JUDD

AWARD-WINNING CLIENT SERVICE

The HLB Mann Judd Australasian Association consists of nine member firms and three representative firms across Australia, New Zealand and Fiji. It represents a group of specialists providing business advice and services to a wide range of business organisations and private clients.

Our experience

HLB Mann Judd's member firms currently audit over 5% of all ASX-listed companies and 11% of all ASX-listed resources companies in Australia. In addition to audit-related services, we also provide a broad range of advisory and tax services.

IPO readiness

HLB Mann Judd firms have extensive experience in assisting clients in their preparation for an IPO and in evaluating the benefits and feasibility of an IPO against alternative strategic options. Our assistance to companies pursuing an IPO typically includes:

- Investigating accountant's reports on historical and forecast financial information
- Independent expert's reports
- Analysis and advice on feasibility and alternatives to an IPO
- Pre-IPO diagnostic reviews
- Corporate and structuring advice
- Financial and taxation due diligence
- Valuations
- Company and shareholder tax advice and planning
- Accounting advice.

Global reach

HLB Mann Judd is a member of HLB International, the global advisory and accounting network. HLB has a history of innovation, collaboration and is dedicated to helping clients grow across borders. Through the power of more than 32,839 professionals across 159 countries, HLB combines local expertise and global capabilities to service clients' needs.

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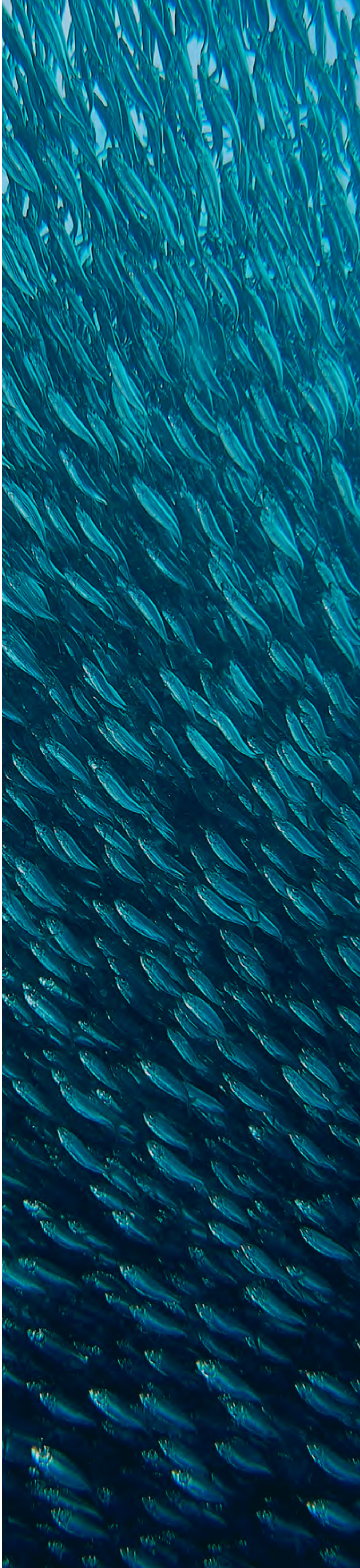

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