



UK Equity Capital Markets Update: Winter 2022

December 2022



Welcome to KPMG's 2022 Winter Update of UK equity capital markets

In this edition of our annual update on UK equity capital markets ('ECM'), we review a relatively challenging year of fund raising activity, with geopolitical and macroeconomic conditions depressing equity markets both in the UK and globally. However, certain bright spots were visible and some significant Class 1 acquisitions and disposals were seen throughout the year. The energy and natural resources sector, led by decarbonisation orientated companies, also demonstrated significant resilience, which we explore in more detail in this report. This edition also includes highlights from our survey of leading UK ECM investment banks, which reveal a widespread, if cautious, optimism for a return of general activity in H2'23.

We hope you find the 2022 ECM Winter Update useful. Many thanks for reading, and from the entire KPMG Capital Markets Advisory Group and ECM team we wish you a safe and happy Christmas, and a prosperous 2023.



- Overview of 2022 activity
- Main Market vs AIM analysis
- Key sectors
- Aftermarket performance
- Class 1 transactions



- Overview of 2023 outlook
- Survey of UK ECM investment banks



- How our experts can assist you on your IPO journey

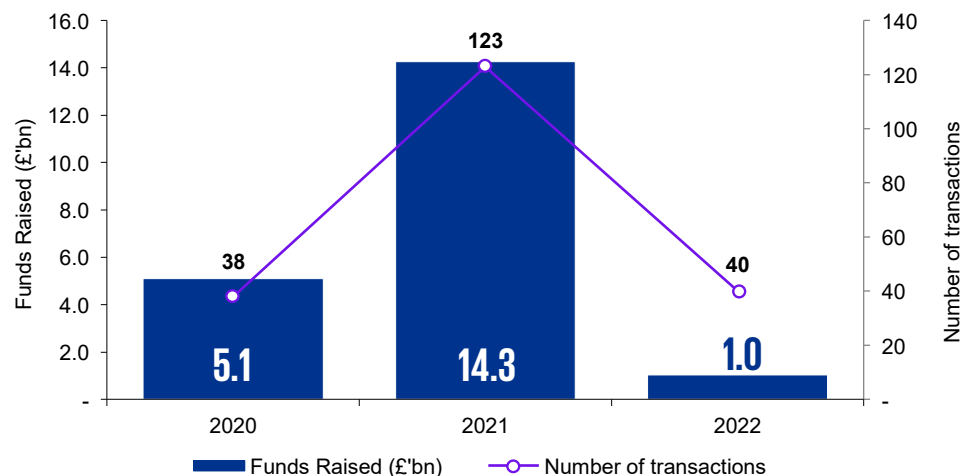


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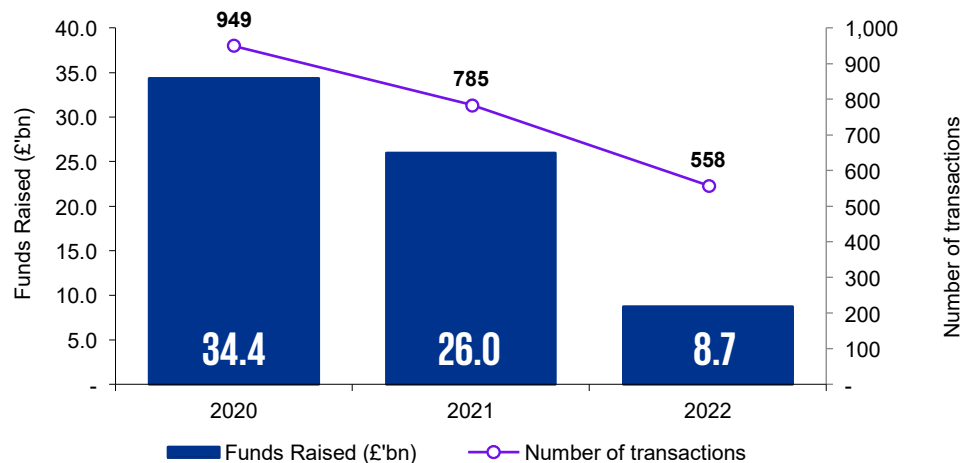
2022 review

UK IPOs and Further Issues: 2020 - 2022

IPO activity (2020 – Nov 2022)



Further Issue activity (2020 – Nov 2022)



£9.8 bn

Total funds raised

(76)% ▼ on 2021

(75)% ▼ on 2020

£1.0 bn

Funds raised via
IPOs

(93)% ▼ on 2021

(80)% ▼ on 2020

40

IPOs

(67)% ▼ on 2021

5% ▲ on 2020

£ 8.7 bn

Funds raised via
Further Issues

(66)% ▼ on 2021

(75)% ▼ on 2020



Note: Given the timing of publication (December 2022), all 2022 data in this report is based on the period Jan-22 to Nov-22 inclusive. For further details on data methodology and sources, please see "Methodology" on page 21.

Reflections on 2022

A challenging year in which equity fund raising across the world suffered from the prevailing macro-economic headwinds



**Svetlana
Marriott**

Head of UK Capital
Markets Advisory Group,
Partner



The flood of IPOs in 2021 became more of a drought in 2022, as a combination of adverse macro conditions and an element of investor fatigue effectively closed IPO markets in the UK (and globally) throughout 2022.

However, the prospects for 2023 are more encouraging.

IPOs

UK IPO activity fell sharply in 2022, with 40 new listings across the Main Market and AIM, raising a combined total of just £1.0 billion. This was down 93% compared to the bumper year of 2021, when there were 123 IPOs raising £14.3 billion. Globally, the position was similar, with funds raised via US and European IPOs also declining year-on-year.

Overall, total funds raised were the lowest in recent memory, with various factors negatively impacting activity, including generational record high levels of inflation; rising interest rates; Russia's conflict with Ukraine; political instability; fears of a global recession; and caution from investors following the poor aftermarket performance of several 2021 IPOs.

Unsurprisingly, nearly all sectors recorded a year-on-year reduction in activity. However, there was one ray of light: energy and natural resources ('ENR'). Momentum behind the decarbonisation of UK energy production has been building for a number of years, driven by the relentless march of ESG. This seemed to accelerate further in 2022 as energy security was quickly catapulted to the top of the government agenda. And, it was decarbonisation related companies that drove the strong performance of this sector in 2022 with 11 IPOs of businesses focused on renewable or hydrogen energy production / investment.

Further Issues

Further Issues activity also significantly declined in 2022, with total funds raised falling 66% from £26.0 billion in 2021 to £8.7 billion in 2022. The reduction can be attributed to the record levels of further issuances in 2021 as companies sought to weather the ongoing impact of the Covid-19 pandemic, with the result that many entered 2022 with well capitalised balance sheets.

Outlook for 2023

Looking ahead to 2023, there are encouraging signs that activity levels will return. We are currently working with a number of companies who are readying themselves for IPO so that they will be able to launch quickly if market conditions improve in 2023. In addition, our survey of ECM investment banks outlined in our next section indicates this cautious optimism is more widely shared.



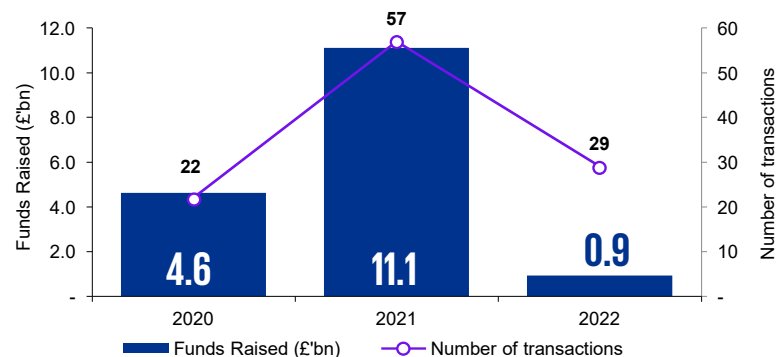
Main Market & AIM analysis

Main Market

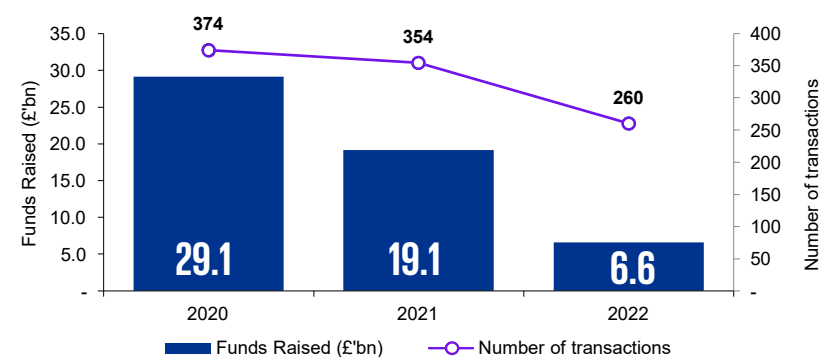


Main Market IPO activity fell significantly in 2022, with the vast majority of funds raised coming from SPACs, including New Energy One Acquisition Corporation (funds raised: £175.0 million); Financial Acquisitions Corporation (£154.5 million); and Hiro Metaverse Acquisitions (£118.1 million). Of the remaining IPOs, the majority related to companies specialising in energy and mining such as Ithaca Energy plc (£262.5 million).

Main Market IPO activity: 2020 - Nov 2022

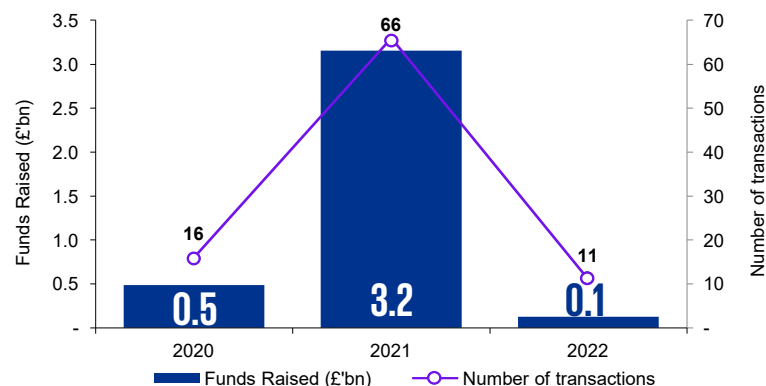


Main Market Further Issue activity: 2020 - Nov 2022

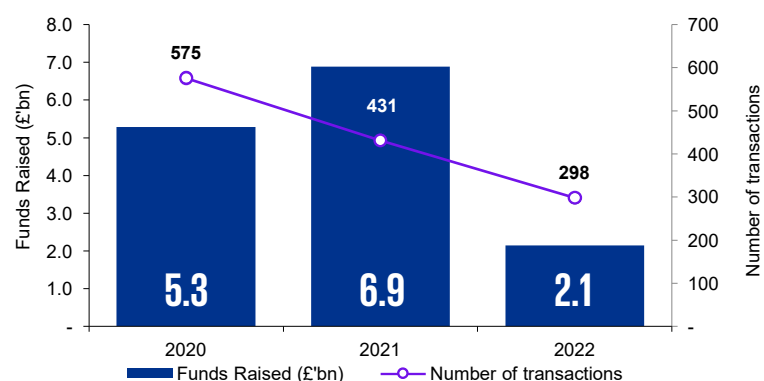


AIM

AIM IPO activity: 2020 - Nov 2022



AIM Further Issue activity: 2020 - Nov 2022



As with the Main Market, IPO and Further Issue activity on AIM has fallen significantly since 2021.

The largest of the 11 IPOs that came to market was Clean Power Hydrogen (funds raised: £30.5 million). Meanwhile, Greencoat Renewables, the renewable energy investor, led the way for Further Issues raising £234.7 million in April 2022.

IPOs by sector: overview

IPO sector split – funds raised 2022



Healthcare

£4 million

Genflow Biosciences



TMT

£50 million

Strip Tinning Holdings,
Aurrigo International,
Ensilica



ENR

£675 million

Ithaca Energy, New Energy
One, ACG Acquisition, Clean
Power Hydrogen, First Tin,
Cleantech Lithium



Retail and Consumer

£1 million

Dial Square Investments plc



Industrials and Business Services

£31 million

Facilities by ADF, Hercules
Site Services, Graft Polymer
(UK) plc



Financial Services

£282 million

Financials Acquisition Corp,
Hiro Metaverse, Bowen
Fintech plc



2022 was a year in which energy security concerns were thrust into the limelight. Couple this with the continuous march of the ESG and decarbonisation agenda, and it is no surprise that ENR companies held the strongest appeal to investors during the year.

Elsewhere, the Financial Services sector also performed relatively strongly in a generally weak year, driven by several SPAC IPOs including Financials Acquisition Corp and Hiro Metaverse. Conversely all other sectors struggled, with Retail and Consumer recording only one IPO during the year, reflecting the challenging economic environment for many households in the UK.



Linda Main

Partner, Chair of UK
Capital Markets
Advisory Group

IPOs by sector: ENR and decarbonisation focus

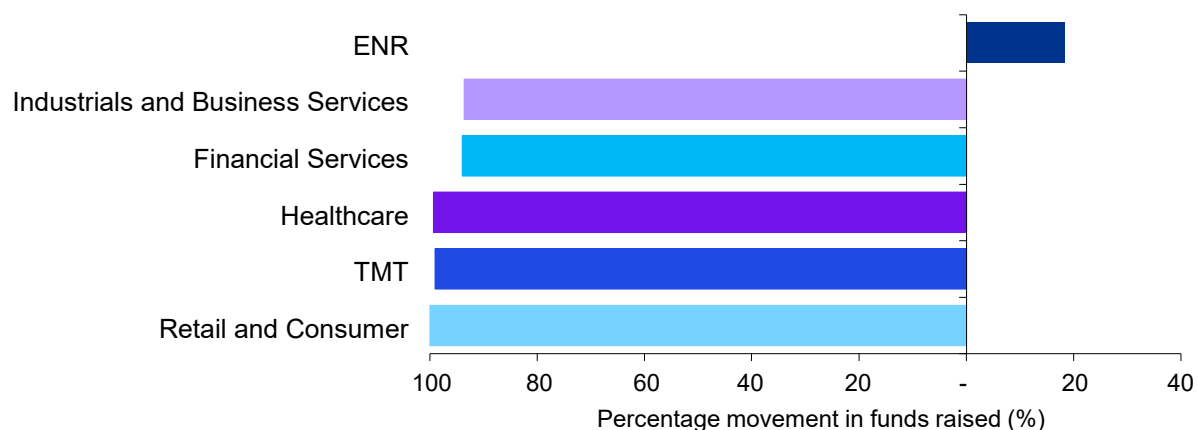
Powering 2022 IPO activity: ENR

In a generally tumultuous year, energy concerns have developed into one of the dominant issues of 2022. Whilst already high on the agenda, the Russian invasion of Ukraine in February 2022 brought energy security issues into sharp focus, as well as creating an energy price shock. The UK government responded to these challenges in April 2022 with the release of its energy security strategy which outlined a strong focus on renewable and hydrogen energy sources, and more generally, the decarbonisation of UK energy production.

It is perhaps no surprise that ENR companies held the strongest appeal to investors during 2022, leading the way in terms of 2022 UK IPO proceeds, and representing 65% of total funds raised during the year.

Furthermore, ENR was also the only sector which showed a year-on-year increase in funds raised (£0.7 billion in 2022 compared to £0.6 billion in 2021).

Movement in Funds Raised by sector between 2021 and 2022 for UK IPOs (%)



IPOs by sector: ENR and decarbonisation focus

The drive towards decarbonisation

Delving further into the detail, 11 of the 20 ENR related IPOs (55%) were focused on decarbonisation. There were 10 IPOs of investment vehicles this year with a specific focus on ENR, of which eight had a focus on renewables. The remaining IPOs comprised of two other renewables companies and one company which specifically focuses on hydrogen assets, with only seven IPOs of more conventional energy or mining entities.

The listing of Ithaca Energy plc, which raised £288 million in November 2022, was by far the largest of all IPOs in the year, both across ENR and all other sectors. Whilst the company is an oil and gas explorer and operator in the North Sea, they have also stressed their intention of operating in a sustainable manner, reflecting the impact that the decarbonisation agenda is having on all ENR players.

Outside the IPO market (and therefore outside of our data analysis here), the largest equity transaction on the LSE was a £546m Global Depositary Receipt ('GDR') offering by Mingyang Smart Energy Group Limited, a global renewable energy solutions provider. The company mainly engages in the development and design of new energy equipment in the wind power and photovoltaic industries.

More widely, as businesses deliver on their decarbonisation plans we expect an element of portfolio optimisation, including acquisitions which may constitute Class 1 transactions. Upstream asset divestments by major listed energy companies or demergers may also drive some market activity in the future.



Unsurprisingly, energy sits high on the global agenda at all levels, with an intense focus across the key sector themes of affordability, security of supply and decarbonisation. The sector will continue to require substantial capital investment, strategic repositioning and technological evolution - in turn driving the continued pipeline of IPO and listed company activity.

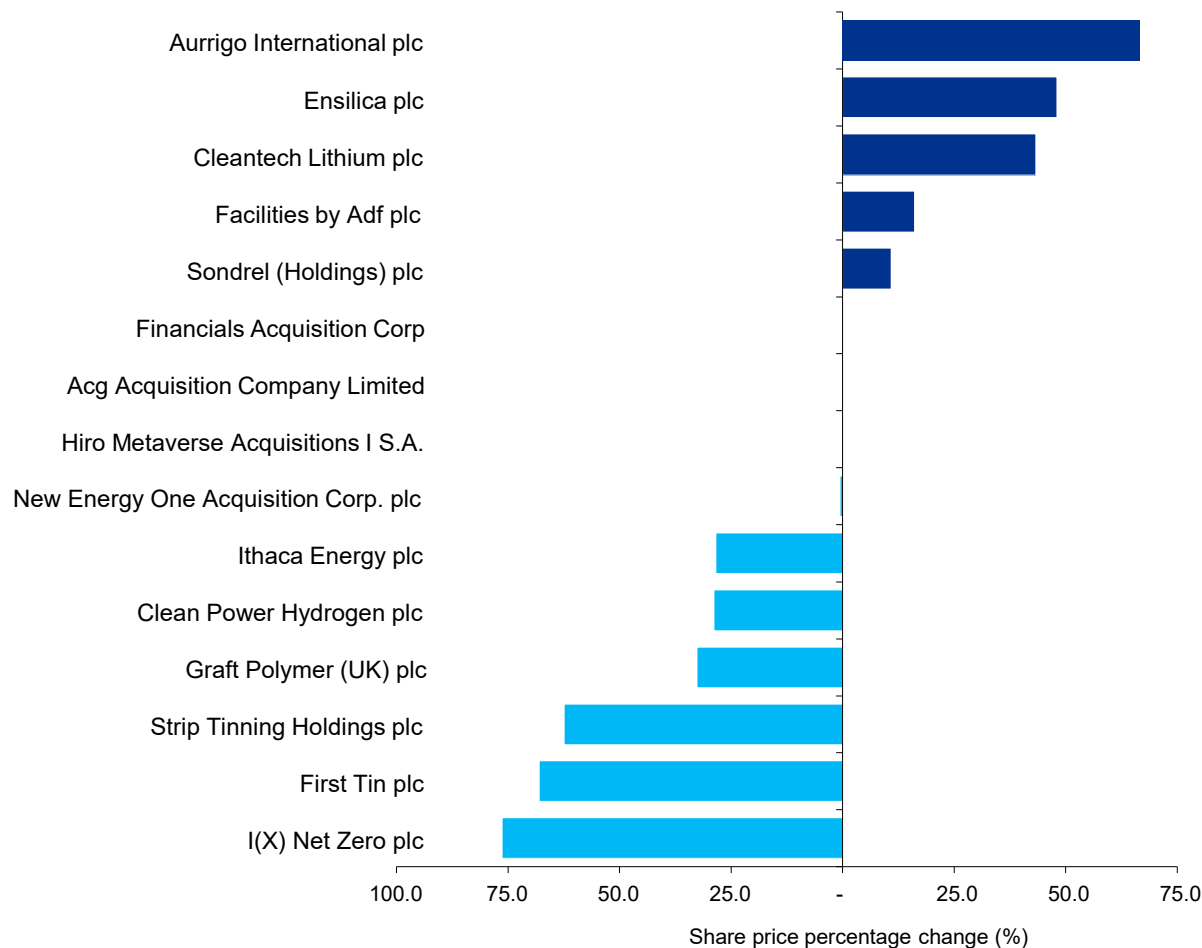


Miles Bradbury

Partner, Head of ENR
Deal Advisory



2022 IPOs: after-market performance



Note: Given the timing of publication (December 2022), closing share prices included in this chart are based on the price as at 30 November 2022. For further details on data methodology and sources, please see "Methodology" on page 21.



After-market performance

The data on the left illustrates the market performance of the 15 largest IPOs in 2022, showing a mixed bag across the board.

Aside from macro factors, there are a number of more nuanced drivers behind some of the share price performances. For instance, companies which are deemed to have good corporate governance and / or have ESG considerations at the heart of the business have tended to fare better under the current challenging conditions.

Another key driver of share price performance this year has been timing, with many of the worst performing companies being those that listed immediately prior to the Russian invasion of Ukraine (e.g. Graft Polymer (UK) plc and Strip Tinning Holdings plc).



Some of the better performing companies in 2022 are those positioned within 'hot' sectors, such as Cleantech Lithium plc, which is riding high on the back of a surge in demand from manufacturers of electric vehicle batteries.

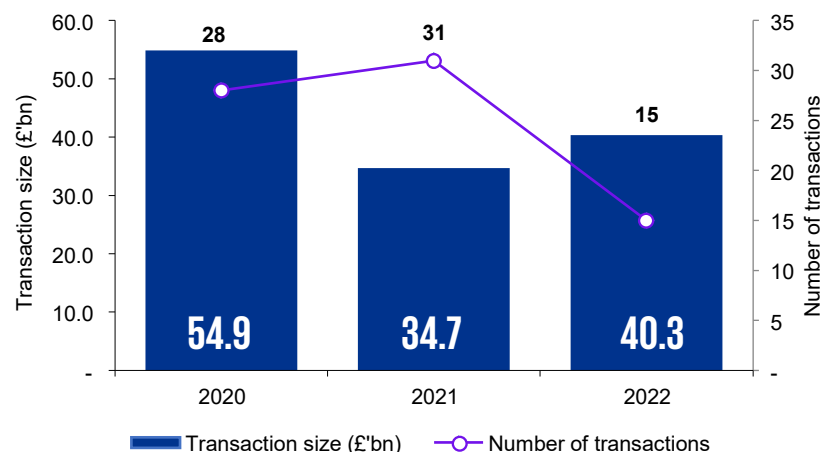
More generally, ENR companies have tended to show greater resilience to macro pressures, as investors recognise that decarbonisation, ESG, and the UK's new energy transition are key driving forces both in this sector and the wider UK economy.



Daniel Davidson

Associate, UK Capital Markets Advisory Group

Class 1 transactions



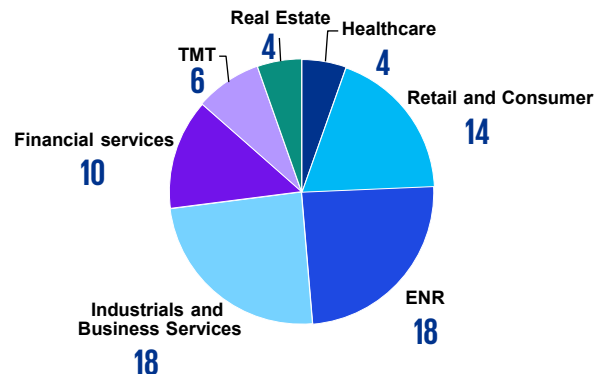
Similar to IPO activity levels, the number of Class 1 transactions during 2022 also fell year-on-year, however overall aggregate deal size was buoyed by the demerger of Haleon by GSK.

Whilst there was only £1.0 billion in funds raised by IPOs in 2022, Class 1 transactions with an aggregate deal size of £40.3 billion took place during the year.

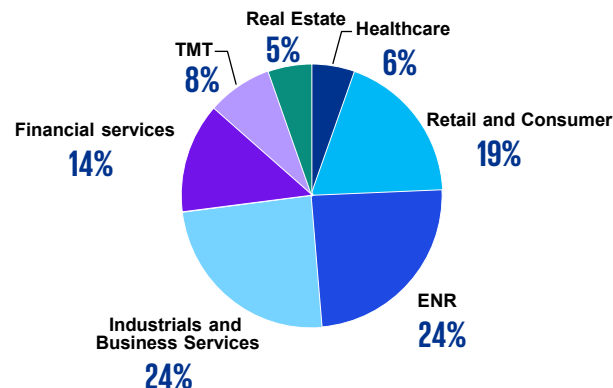
Under challenging market conditions, 15 Class 1 transactions took place during 2022 (a reduction from 31 in 2021), with six exceeding a deal size of £1.0 billion. By far the largest Class 1 deal was the £31.0 billion GSK demerger of Haleon Group in July 2022. This is not the first time we have seen the Healthcare sector leading the Class 1 transactions market by deal size, with the £29.3 billion acquisition of Alexion Pharmaceuticals by AstraZeneca completing in 2021 (although in line with our methodology, this transaction is recorded in the 2020 dataset in light of a Class 1 Circular publication date of December 2020).

However, since the start of 2020, the ENR sector was again one of the most active sectors, with 18 Class 1 transactions over this period. Meanwhile, the Retail and Consumer sector also contributed a significant amount of deal size over this period on the back of an extremely active 2020 and 2021, driven by the notable disposal of Tesco's businesses in Thailand and Malaysia for £8.2 billion in 2020, as well as the £5.9 billion acquisition by Just Eat Takeaway.com of Grubhub in 2021.

Number of Class 1 transactions by Sector (2020 - Nov 2022)



Class 1 transaction size (%) by Sector (2020 - Nov 2022)



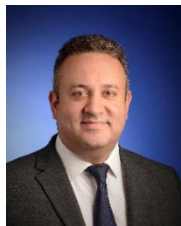


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2023 Outlook

Outlook for 2023

Cautious optimism remains for a recovery in the second half of 2023, however, the UK economy must first overcome key impediments before the IPO market can return



Aadam Brown

Head of Independent ECM Advisory,
Managing Director

Looking forward, there are some very early indications of recovery going into the New Year as the team are working with a number of companies as they ready themselves for IPO in 2023 and beyond.

This outlook is also shared by the sentiments of many of our respondents in our ECM Survey (results of which can be found on the following pages), with an overwhelming proportion (72%) suggesting that a broad return for the UK IPO market is likely to be in H2'23.

The biggest impediment to the recovery of the UK IPO market is seen as depressed equity markets which are interrelated with a host of factors from high inflation, the interest rate hiking cycle and consumer weakness to geopolitical concerns (refer to Yael's adjacent comments for more information). However, many of these impediments may reduce their impact on sentiment at relatively short notice, as certainty increases on the extent and likely duration of these issues and normality returns. As we referenced in our half year update, IPOs can and do return in short order once sentiment improves. The expectation is that this broad recovery will be in the second half of next year, but that the first half may still be open to some "must-own issuers".

More widely, over half of the ECM survey participants highlighted that the energy sector is expected to lead the recovery of the UK IPO market. Our earlier sector focus in this publication on the ENR space also demonstrates further reason for optimism as pockets of real resilience clearly exist despite the challenging market conditions. However, ultimately companies coming to the market will be defined by quality rather than by sector, with well capitalised businesses seeking steady growth likely to be at the forefront when the market returns.

It is also worth noting that there is a large backlog of companies waiting for the right time to become a UK listed company. While we do not expect a repeat of the 2021 record breaking year of IPOs, once the smoke clears from what has been a slow year for new issuance in 2022, we are cautiously optimistic that 2023 will mark a spirited return for companies joining the public markets.



It has been an increasingly challenging environment for the UK economy, with further headwinds expected next year.

While inflation should start easing in coming months, we expect further rate increases early in 2023.



Yael Selfin

Chief Economist at
KPMG UK

The wider economic perspective

The KPMG macroeconomics team expect a challenging economic outlook for the UK over the coming months. The UK is already thought to be in a recession, one which could last until the end of 2023, and with a forecast peak-to-trough drop in GDP of around 2%. This would indicate a recession similar to that seen in the UK in the early 1990s. The expectation is that this will primarily be driven by household consumption, as consumers cut down on spending in light of weakening incomes in real terms. As consumer confidence nears all-time lows, the most notable risk factors identified include:

- Eurozone recession due to interruption to gas supply arising from Russia's invasion of Ukraine;
- Potential US recession arising from significant monetary tightening by the US fed; and
- Squeezing of UK household incomes resulting in a sharp decline in household consumption.

While pay is set to grow in nominal terms, a higher level of inflation has ultimately led to an erosion of purchasing power. Inflation is expected to peak at over 10%, driven by high energy prices as well as higher global foods prices. Inflation is however expected to fall gradually from 2023 onwards, and while the path of inflation going forward remains uncertain, it may indicate the first signal that the UK is through the worst.

KPMG Independent ECM Advisory's survey of UK ECM leaders 2022

This is our first survey of UK ECM leaders and as part of the survey, we spoke to 25 UK ECM leaders across the large US and European investment banks through to the UK small and midcap brokers to compile their views on:



The general state of the markets



Key themes we expect to see going forwards



General thoughts on the IPO process

The full report is available here: <https://assets.kpmg/content/dam/kpmg/uk/pdf/2022/11/ecm-advisory-survey-of-uk-ecm-leaders.pdf>

We hope you find the survey useful, and we would be very happy to discuss the findings in more detail.

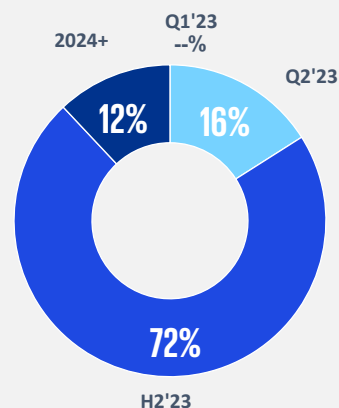
Participants

UK ECM leaders from the following 25 banks participated in our survey:

**Bank of America | Barclays | Berenberg | BNP Paribas | Citi | Credit Suisse | Davy | Deutsche Bank |
Finncap | Goldman Sachs | Goodbody | HSBC | Investec | Jefferies | Liberum | Morgan Stanley | Numis |
Panmure Gordon | Peel Hunt | RBC | Shore Capital | Singers | Stifel | UBS | Zeus**

ECM Advisory Survey Results (1/2)

When do you expect the UK IPO market window to re-open?



- A broad return for the UK IPO market is expected in the second half of 2023
- Many ECM leaders expect some bursts of early IPO activity in Q1/Q2 of 2023
- Although a lot is still uncertain and rides on the recovery in sentiment over the next few months, optimism remains

Note: answers provided for a broader UK IPO return rather than early signs of activity

“Today is better than four weeks ago which was better than four weeks before that. A few months ago, there was no investor interest in anything new, but this has improved recently.”

“Q1 is expected to be open selectively for a number of must-own issuers, e.g. large carve outs, ESG focused stories, or those with a very compelling valuation or investment attractions such as high dividend yields. Q2 should be more open because of greater visibility on consumer spending, rates, central bank sentiment and visibility on FY22 earnings. We hope investors will be more open for new opportunities post Easter.”

“It somewhat depends on how the rest of this year plays out, i.e. if macro doesn't worsen, but then the question becomes are companies actively preparing for that earlier window.”

“I am very bullish on the IPO market in the medium term. With debt markets as they are, it is extremely challenging for sponsors to realise value elsewhere given the more limited leverage. I think it will happen sooner than most people realise but it depends on how bad the economy is in Q1.”

What do you believe is the biggest impediment to the recovery of the UK IPO market?



- Depressed equity markets are seen as the biggest impediment for the recovery of the UK IPO market which is interrelated with a host of factors from high inflation, the interest rate hiking cycle and consumer weakness to geopolitical concerns
- A return to fund flows into UK equities is one of the key areas that will help improve investor appetite for new issues
- The performance of the last IPO cycle has not helped investor confidence and there will need to be solid operational performance in prospective listing candidates over the next 12 months to lift sentiment

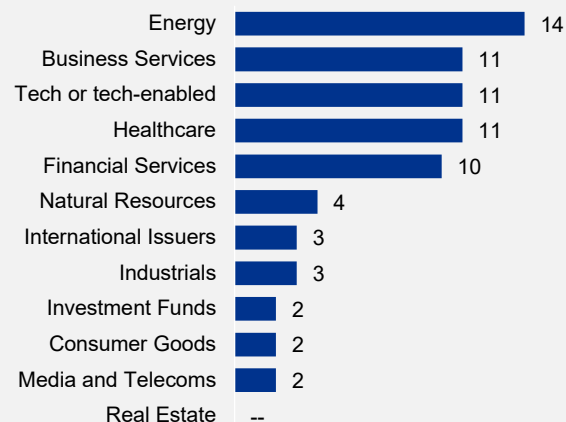
“Inflationary pressures are driving a lot of the issues here, including the ability for companies to forecast effectively. Interest rates are definitely a key driver of secondary market activity and depressed equity markets mean depressed valuations which are of course not helpful.”

“UK equities, and especially small & midcap equities, have seen the biggest outflows globally: we need to see redeployment of capital into UK equities in order to support a recovery in the UK IPO market.”

“[While] we expect depressed investor appetite for very fast growth stories, investors will look again to IPO markets to capture alpha.”

ECM Advisory Survey Results (2/2)

Which sector(s) do you think will lead the opening of the UK IPO market?



- Energy transition continues to be in focus
- Other key sectors include profitable Tech or Tech-enabled companies, disruptive Financial Services, Healthcare and Business Services
- Tougher areas of the market are expected to be Real Estate, Industrials and B2C Consumer



"Companies coming to the market will be defined by quality rather than by sector"

"Well capitalised, established EBITDA, steady winners are what will be required."

"The infrastructure end of energy is a focus and there is potentially space for growth within the green space."

Where do you see the bulk of equity capital transactions in the next 12 months?



- UK plc balance sheets are relatively strong now, but a wave of recapitalisations is expected at some stage
- M&A expected to play a part and some shareholders are still expected to sell-down and/or provide growth capital



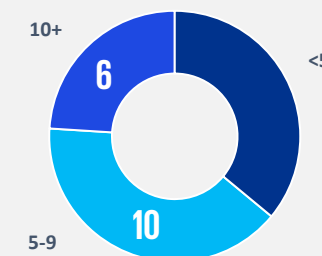
"Balance sheets are better coming out of Covid than going into."

"There are many CFOs who are likely to have never seen a higher rate environment where lending is not easy."

"A number of PLCs that see value in their sectors as well as some inbound M&A expected."

"Good companies with good shareholders and sensible M&A opportunities should be able to raise capital."

How many UK IPOs do you have in the pipeline?



- Most banks have a healthy pipeline of UK IPOs waiting to return subject to market conditions
- Note that there is likely some overlap between banks



Please see the full survey for additional features on 'Key future themes expected' and 'Reflections on the IPO process'



03

KPMG's UK IPO Advisory Services

KPMG's UK IPO Advisory services

An IPO is often the most complex and strategically important transaction a company and management team can undertake.

KPMG provides a complete service offering to support you every step of the way. We have worked on some of the most complex UK IPOs and public company transactions in recent years, across all sectors. We bring this experience and expertise to every management team we work with. Our approach is designed to be personal, working closely and collaboratively with you to deliver the most efficient and effective transaction processes.

**-24 to -12
Months**

Strategic options analysis



IPO workshop:

- A half day complimentary workshop designed as a collaborative session with senior management to provide information and initiate the process of highlighting key considerations relevant to you.
- The workshop can be tailored to cover the aspects of the IPO process most relevant to your circumstances, and can be expanded to cover wider strategic options such as dual track considerations.

**-18 to -6
Months**

Pre-IPO



IPO readiness assessment:

- Early preparation significantly increases the probability of delivering a successful IPO.
- Our IPO readiness assessment is designed to be a tailored but comprehensive readiness and gap analysis which provides you with an outside-in view of key focus areas.
- Typical areas covered include: Governance; Financial Reporting; Financial Planning; Systems & Controls; Human Resources; Tax; Technology; and, ESG.

**-9 to 0
Months**

IPO Execution



IPO reporting accountant

- KPMG is one of the market leaders in IPO reporting accountant work. Our team is hugely experienced and works across all sectors.
- As reporting accountant we provide a comprehensive suite of deliverables required for the IPO process, including accountant's reports over historical and pro forma financial information, long form, working capital and financial position and prospects due diligence reports, and a suite of private comfort letters.

IPO support

- Throughout an IPO process you will be at the epicentre of conflicting requests, priorities and demands. KPMG can help significantly ease the burden on management teams across any and all workstreams.
- Our areas of support include (but are not limited to): preparation of financial information; financial model build and/or development; preparation of IPO related board memoranda; tax and remuneration planning and structuring; systems and controls review and development; technology related reviews and enhancements; preparation of listing documentation; and, project management.

**As
required**

Post-IPO



Reporting Accountant

- Whether embarking on a significant acquisition or disposal, a fund raise or a demerger, KPMG can provide reporting accountant services designed to facilitate the most efficient post-IPO transactions possible.

Transaction Support

- Post-IPO transactions, such as cross-border demergers, can be extremely complex. KPMG has worked on some of the largest and most complex deals in recent years and brings expertise and insight to these processes (including a comprehensive suite of integration / separation services as required).

Independent ECM advisory

- KPMG's Independent ECM advisory team provides independent advice to companies and stakeholders going through an IPO process with advice backed by detailed analytics, creating transparency in the process and enabling stakeholders to make better informed decisions to increase the chances of a successful outcome. The role covers the IPO process end-to-end: from pre-IPO preparation, equity story development, bank and other key advisor selection, through to overall project management and detailed oversight of IPO execution.

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Methodology



UK IPO data and Further Issues: [Primary markets New issues and IPOs Reports | London Stock Exchange](#)

The data was extracted from the above LSE website for both “New issues and IPOs” and “Further Issues”, which were both filtered for the date range 01/01/2020-30/11/2022.

- IPOs have been classified as per LSE criteria, reflecting “New Company Placings” only;
- IPO funds raised are based on Total Funds Raised (including new and already issued shares);
- IPO sectors were categorised by KPMG based on FTSE Sector and Subsector characteristics;
- Further Issue volume numbers exclude any equity issues where no funds were raised;
- Aftermarket performance was calculated as the variance between the Issue Price per the LSE data set above, and the closing share price as at 30/11/2022.



Class 1 transactions: <https://data.fca.org.uk/#/nsm/nationalstoragemechanism>

The data was extracted from the above FCA website, filtering for the date range 01/01/2020 to 30/11/2022 under the category search “Shareholder Circular”, “Disposal” and “Acquisition”. For any given transaction under this criteria, key information was pulled from the circular published on the website.

- Dates used relate to the date by which the Shareholder Circular was published;
- Transactions were removed where a Shareholder Circular was published but the transaction had not completed at the date of the publication of this report;
- Exchange rates were taken from the HMRC website for the relevant month by which the Shareholder Circular was published (see <https://www.gov.uk/government/publications/hmrc-exchange-rates-for-2022-monthly>).



Primary data collected from ECM questionnaire surveys:

As part of the survey, we spoke to 25 UK ECM leaders across the large US and European investment banks through to the UK small and midcap brokers to compile their views on:

- The general state of the markets;
- Key themes we expect to see going forwards; and
- General thoughts on the IPO process.

UK ECM leaders from the following 25 banks participated in our survey:

**Bank of America | Barclays | Berenberg |
BNP Paribas | Citi | Credit Suisse | Davy |
Deutsche Bank | Finncap | Goldman Sachs
| Goodbody | HSBC | Investec | Jefferies |
Liberum | Morgan Stanley | Numis |
Panmure Gordon | Peel Hunt | RBC | Shore
Capital | Singers | Stifel | UBS | Zeus**



<https://home.kpmg/uk/en/home/services/deal-advisory/transaction-services/capital-markets-advisory-group-hubpage.html>

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