



Press release

Date **EMBARGOED UNTIL 00:01 Wednesday 28th May 2014**

Subject **Overheated IPO valuations fuelling advisor optimism**

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Widening gap develops between advisors and small and mid-cap companies in their interpretation of the state of public equity markets

The latest results from the QCA/BDO Small & Mid-Cap Sentiment Index reveal that over half of companies and advisors agree that recent IPO valuations have been overpriced (54% and 59% respectively). However, the current uptick in the IPO market is creating a divide between companies and their advisors in their assessment of continuing investor enthusiasm post-listing.

In the latest report, which garners opinion from across the small and mid-cap quoted sector, advisors are almost twice as confident as companies (81% and 44% respectively) that the uptick in the IPO market is providing a supportive investment environment in which companies can raise secondary finance. Despite more money flowing into public equity markets, companies are far more cautious than advisors in their assessment of what this means for the longer term. This suggests companies are taking a more grounded approach, refusing to accept the overall improvement in equity market conditions at face value. This may indicate wariness that, without continued investor interest in companies, a buoyant market will not directly translate into sustained access to finance.

This dose of realism from companies is clearly reflected in their assessment of their own prospects and the wider economy. The overall rise in confidence has flattened slightly, but remains high, and annual turnover growth expectations have risen strongly, increasing from 14.4% in January to 15.7% in April - an all-time high for the QCA/BDO Index (which began in October 2011). Despite this, companies' hiring expectations dipped slightly in April, falling

from 6.6% annual growth to 5.8%. This suggests that companies are being more measured when interpreting the prospects for the economic recovery.

Scott Knight, Partner, BDO LLP, commented: “The IPO market is grabbing the headlines at the moment due to the full valuations being achieved. It is encouraging to see this return of investor interest which is helping companies expand but there is also the danger of a bubble forming. Those companies already listed can equally feel ignored and want to see more benefit from being quoted on the market.”

Tim Ward, Chief Executive of the Quoted Companies Alliance, said: “Companies’ cautious approach to the improving business environment is to be respected. It points to a more measured, sustainable approach in the face of the renewed enthusiasm of advisors. Unrealistic company valuations could have a detrimental effect on companies’ prospects for secondary financing.”

Advisors’ strong optimism about the ease of raising secondary finance currently is also reflected in their view of investor appetite. Investor interest in equities is believed to have increased over the past six months. But again, advisors are more enthusiastic, with 85% feeling confident that investor interest has increased in the last six months compared to 69% of companies.

Tim Ward, Chief Executive of the QCA, continued: “The data suggest that investor appetite for risk is returning, but an IPO is only the beginning of the journey, not the destination. The challenge for companies is to maintain investor interest and enhance the possibility of secondary fundraising. It is, therefore, crucial that the UK regains its equity investment culture with companies working hard to build relationships and demonstrate their long-term growth potential.”

Most encouraging is the overall increase in the number of companies that believe equity markets are now benefiting businesses. In September 2011, during the depths of the financial crisis, only 14% of small and mid-caps felt equity markets were supporting their development but this has now quadrupled, reaching 58% in April 2014.

Scott Knight, Partner, BDO LLP, continued: “It is promising that companies are increasingly seeing the benefits that equity markets can bring to their businesses. The return of a buoyant IPO market is playing its part in this but companies and advisors alike should remember that there is more to the market than shiny new listings.”

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Methodological notes

The QCA/BDO Small & Mid-Cap Sentiment Index by BDO and the Quoted Companies Alliance (QCA) powered by YouGov is an online quarterly survey across the small and mid-cap quoted sector.

Methodology: This survey has been conducted using an online interview administered to members and associates of the QCA. The sample definition is "small and mid-cap UK quoted companies and advisory companies". The responding sample is weighted by industry to be representative of small and mid-cap UK quoted companies, as derived from London Stock Exchange data.

The report is based upon 180 online interviews (107 small mid-cap quoted companies, 73 advisory companies). It was conducted between 2 April and 17 April 2014 by research company YouGov.

Please note that not all scores in this report add up to exactly 100% due to rounding. The margin of error for the survey is +/- 8%.

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