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Key North American IPO market statistics

In Canada, IPO activity in Q2 increased as compared to the prior quarter in terms of IPOs completed. As market volatility from mid-February continued to ease and the results from the Ontario provincial elections were finalized, 5 issuers hit the market in the second quarter.¹ Nevertheless, there remains a meaningful backlog of Canadian companies that are getting ready to access markets as we enter the traditionally busy fall IPO window. Additionally, given the higher energy price environment, we expect energy issuers and sponsors to continue to closely monitor the equity markets and the viability of going public.

South of the border in the US, activity has remained robust with 63 companies completing IPOs, raising proceeds of US\$17.9 billion, which exceeds the average of the past five year by over US\$3 billion.¹ There have been some large marquee listings that have commanded investor attention such as AXA Equitable Holdings, LLC and GreenSky, LLC.

While the equity markets are expected to remain generally constructive for the remainder of 2018 in terms of new issuance activity, the ongoing trade wars and tariff escalation are expected to act as an overhang on the global economic outlook with uncertainty with respect to the impact these actions will have on corporate earnings. Nevertheless, issuers and financial sponsors are expected to remain optimistic about the back half of 2018 for IPOs and monitor the equity markets closely.

US	Canada
108	6
Number of IPOs YTD with deal size greater than US\$50 million	Number of IPOs YTD with deal size greater than C\$50 million
\$35.1B US	\$1.1B CDN
Total proceeds raised through IPOs YTD 2018	Total proceeds raised through IPOs YTD 2018
1.3%	0.4%
YTD 2018 return of S&P 500 Composite Index	YTD 2018 return of S&P/TSX Composite Index
21.9%	24.6%
Aftermarket performance of YTD 2018 U.S. IPOs	Aftermarket performance of YTD 2018 Canadian IPO

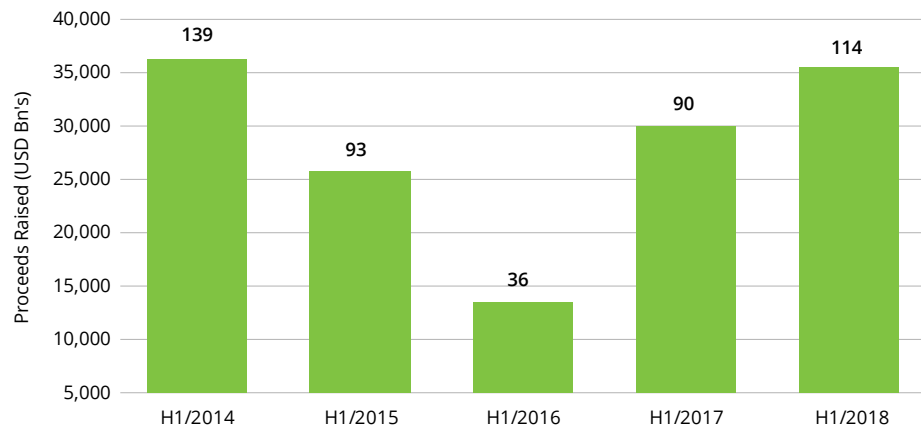
**Source: FPinfomart, TMX & Bloomberg (as of June 29th, 2018).
As of quarter end, Minto REIT and MAV Beauty had not commenced trading.*

Markets shrug off volatility

During Q2, North American markets regained the momentum that was experienced at the beginning of 2018, in terms of both performance and diminished volatility. While volatility remained somewhat elevated during the first month of Q2, it subsided in April as the VIX returned to more normalized levels, averaging 13.6 for Q2.²

Not surprisingly, the strength of the IPO market returned as shown below. Q2 2018 North American IPO activity has surpassed 2017 activity with regards to total funds raised as well as number of new names and only falling behind 2014.

North American IPO Volumes - Historical 6 Month Activity



Source: Dealogic for all IPOs with deal value > US\$50 million, as of June 29, 2018

Key themes from recent IPO activity

Under represented sectors add new names

The Canadian market is heavily weighted to the financials, energy and materials sectors. In the past quarter, the market added a few new names through IPOs to the real estate, consumer and industrial sectors.

Since 2013, the only new names added to the TSX in the real estate sector were Automotive Properties REIT in 2015 and Invesque (previously named Mainstreet Health Investments) in 2016. In addition, the sector saw the loss of two names (Milestone Apartments REIT and Canadian Real Estate Investment Trust) in the past 18 months through M&A activity. The quarter looked to reverse this trend with two REIT IPOs closing. First was BSR REIT, a U.S. domiciled entity with a portfolio of multi-resident garden style properties located in the southern United States which completed its IPO in May raising US\$135M.³

The second offering was met with a great deal of enthusiasm from institutional investors and saw its unit price jump 9% on its first day of trading after pricing at the top end of the IPO marketing range.³ The Minto Group, the private real estate company that develops homes and manages multi-residential and commercial properties, spun off a collection of its apartment assets into a REIT and filed a preliminary prospectus in late May and priced in the second half of June raising C\$230M.³

Much of the enthusiasm for Minto was a result of the strong brand, longstanding history, as well as quality and location of its assets in core areas of Toronto and Ottawa that have an undersupply of rental properties. Traditionally, in rising interest rate environments, the enthusiasm for REITs from investors is tested due to the risk of cash distributions (and the implied yield) not being able to increase in line with the increase in underlying rates. But investors are beginning to appreciate the opportunity that certain real estate stories exhibit the ability to both increase cash distribution and provide a total return story through growth and development.

Canada welcomes well-known consumer name focused on growth

The TSX welcomed MAV Beauty Brands Inc. through its IPO which priced on June 28th. MAV Beauty, the newly formed parent company of Marc Anthony Cosmetics, was founded by Marc Anthony Venere and is a preeminent consumer brand not only in the Canadian market but in the U.S. and international marketplaces.³

Marketed as a platform to drive growth through acquisition and entering new markets, MAV Beauty is looking to tap into the growth the consumer discretionary sector has experienced in the Canadian market. Year to date, the performance of the Consumer Discretionary sector is above the average for all sectors, up 9.2%, while the TSX as a whole has remained flat over same period.³

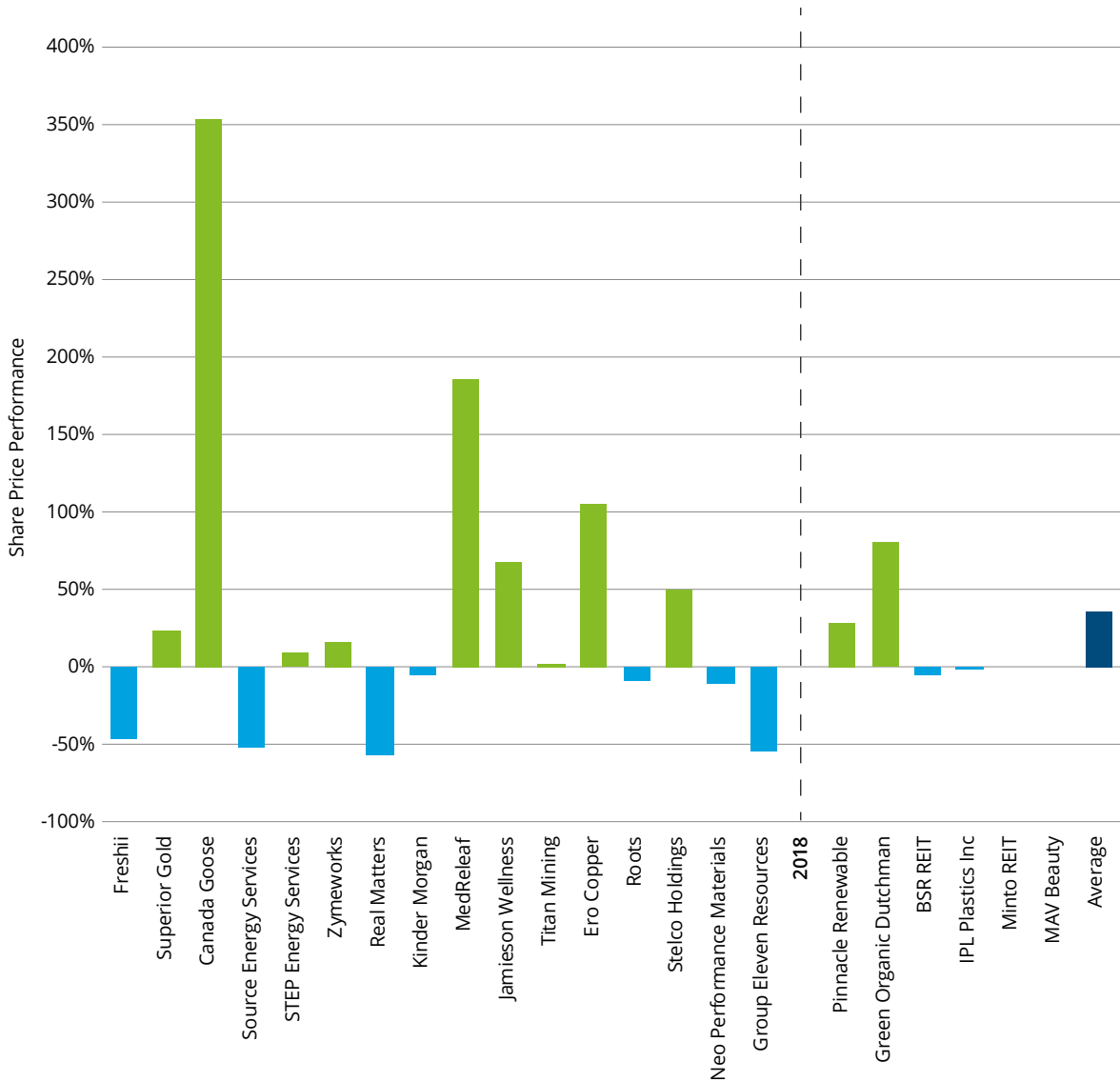
The offering raised C\$262M, of which just under half was proceeds to the selling shareholders and was priced within the marketing range at \$14 per share.³

IPO aftermarket performance pushes ahead

Companies that have undertaken an IPO in Canada continue to outpace the performance of the broader market.⁴ Canadian IPOs since 2017 have averaged 33.7% in returns over their IPO price to date, a return that compares favorably to that of the overall market which equals 5.9% over the same period.⁴

And although, Canada Goose and MedReleaf favourably effect the average return, many of the remaining names also experienced positive aftermarket support. Of the IPOs since 2017, 55% were in positive territory since listing and 50% saw gains in excess of 10%.⁴

Aftermarket Performance for TSX Listings (2017 - Present)



Source: Dealogic for all IPOs with deal value > US\$50 million, as of June 29, 2018

U.S. IPO activity charged up by technology sector

Much of the U.S. IPO markets continued positive performance was due to the technology sector. Of the total new names listed and total funds raised by the U.S. IPO market, technology companies made up 20% and 27%, respectively.⁴ This level of IPO activity in the tech sector has not been seen since 2014.⁴

Year to date, the technology sector in the U.S. has experienced a gain of 9%, making it the second best performing sector by a slim margin behind Consumer Discretionary.³ Much of this growth was due to the FAANG companies (Facebook, Apple, Amazon, Netflix, Google). This has caused the general sentiment of the overall sector to be overwhelmingly bullish and conducive to new IPO names.

Cross border listings continue

During Q2, Canopy Growth, arguably the most recognized public cannabis company in Canada made the decision to list in the U.S. with a filing on the NYSE.⁵ This follows in the wake of Cronos, a cannabis producer that was the first Canadian cannabis company to become listed on a major U.S. exchange.⁶

The listing is seen as an opportunity to strengthen the shareholder base of Canopy by increasing the opportunity for U.S. institutional investors to evaluate making an investment in Canopy.

Following Canopy's listing, Tilray, a vertically integrated global medical cannabis producer based in British Columbia, filed for an IPO during the final days of Q2. The IPO priced subsequent to Q2 closing and saw a 32% increase in its share price after becoming the first cannabis producer to complete an IPO in the US.^{3,7}

Ceridian HCM Holdings, a US domiciled company with a deep relationship with Canada completed its IPO in April through a listing on both the NYSE and TSX. The IPO was met with mass enthusiasm from investors, pricing above its marketing range and experiencing over 40%

share price increase in its first day of trading.³ Ceridian, a global human capital management technology company and owner of Dayforce, is led by David Ossip, who along with most of remainder of the management team and 1,000 members of the workforce are based in Toronto. And although Ceridian had a high degree of ownership by Thomas H. Lee Partners and Fidelity National Financial Ventures Group, private equity firms based in the US, having representation on a Canadian exchange was important to the management team and continues to strengthen the profile of the Canadian technology sector on the international stage.⁸

Equity market backdrop

Canadian and U.S. equity markets delivered gains during Q2 of 2018.³ The steady state of market volatility and massive appetite for technology was enough to net the Canadian and U.S. markets with gains of 5.9% and 2.9%, respectively.³ The story would be rosier if not for the continued weakness of Utilities, Telecoms and Consumer Staples.³

The completion of the Ontario provincial elections also adds to the future clarity for potential issuers and while Canadians have generally developed a tolerance for rapidly changing dynamics of the Canadian – U.S. trade relationship, the newly imposed tariffs and counter tariffs may add a speed bump to issuers' readiness plans.



Final thoughts

Looking forward to the back half of 2018, there remains a strong backlog of potential issuers looking to access the capital markets through an IPO. As the dust settles from early market volatility and potential issuers are encouraged by the Q2 pickup in new names listed, we expect to see continued enthusiasm from companies considering the Canadian markets as a source of capital. As well, as energy prices have rebounded from recent lows, we expect issuers in the energy sector to eye the IPO markets positively and pursue a stage of readiness. As evidenced by the continued strength in aftermarket performance of recent Canadian issuances, investor appetite still exists for new names as both institutional and individual investors look for quality companies that exhibit strong growth prospects.

About us

The Deloitte IPO Advisory group is an end-to-end service provider that utilizes a comprehensive framework for advising and preparing companies for the initial public offering and beyond. This can include analyzing a company's strategic alternatives, getting "IPO ready", helping to coordinate the overall process and providing independent capital markets advice throughout the process.

The group is comprised of a dedicated team of professionals from Investment Banking, Equity Capital Markets, Private Equity, Financial Reporting, Risk, Tax and Consulting backgrounds.

Deloitte's leading IPO Advisory practice is differentiated in the marketplace through its dedicated Capital Markets team, providing issuers with independent advice relating to key IPO success factors including: equity story, value, market timing, pricing strategy and tactics, underwriter selection, fee negotiations, roadshow and investor targeting strategy, to name a few.

For more information on our services, contact one of our Deloitte IPO advisory professionals.

Endnotes

- 1. Source: Dealogic, as of June 29, 2018
- 2. Source: Bloomberg & CBOE, as of June 29, 2018
- 3. Source: Bloomberg, as of June 29, 2018
- 4. Source: Bloomberg & Dealogic, as of June 29, 2018
- 5. Source: Canopy Press Release, May 23, 2018
- 6. Source: Cronos Press Release, February 26, 2018
- 7. Source: Tilray Press Release, July 23, 2018
- 8. Source: Ceridian Press Release, April 26, 2018



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