

Evaluation Arbitrage is One of the Main Factors Going Public Magazin, May 2015 – Summary Translation

“Valuation Arbitrage is virtually one of the key topics”

Interview with Berthold Hummel, Partner, Dechert LLP

How many IPOs do you expect to see in 2015?

In light of the projects we are seeing, I expect around three to five cross-border IPOs of German companies listing in the USA. The IPO window continues to be open, as the public capital markets in the USA still offer good opportunities for attractive companies. Based on the overall number of projects, the trend of so-called "Foreign Private Issuers" out of Europe listing in the US continues.

Are these issuer prospects primarily biotech companies?

Yes, the majority are active in the life science industry, namely biotechs. However, we also see technology companies which are not active in life sciences, also outside the often-cited 3-D printer sector. Right now there is a wider trend of fast-growing German technology companies looking to enter the U.S. capital markets.

Were the German IPOs of Rocket Internet and Zalando unique or is it possible for similar companies to accomplish a successful local listing, too?

I would primarily look at the deal value of issued shares in this context. A U.S. IPO is rather suitable for smaller companies that do not seek such a high issue value as was the case with Rocket Internet and Zalando. In the past two years, the average issue value for initial listings of foreign private issuers on NYSE or NASDAQ was in the range of US\$80 to US\$200 million.

Is it becoming increasingly difficult for German companies here in Germany when it comes to marketing and issuer support?

I would not say it is becoming more difficult, but that it remains difficult, except for extremely fast-growing, outstanding companies like Rocket Internet and Zalando that pursue a clever IPO marketing strategy..

What are the relevant factors yet to be taken into consideration when going public in the U.S.?

I think operational issues like whether a company is already active in the U.S., plans to generate revenue there in the future or has a specific focus on the U.S. – be it R&D activities or a regional sales or distribution focus – play a certain role. In addition, the extent to which the company wants to hire managers or executives with a U.S. background is also an important factor. Nevertheless, what remains clear is the excellent access to the U.S. capital markets as a result of high liquidity, as well as the willingness of the investors' side to take and accept increased risks.

What role do evaluations play, like in the case of voxeljet?

The topic of evaluation arbitrage is actually one of the key aspects of consideration. However, the life science sector is not always subject to those kinds of valuation differences. From our experience, in this case good access to the capital markets and liquidity is most important. As regards technology companies, however, evaluation arbitrage is particularly relevant. As it became evident in the field of 3-D printing, the U.S. view was fairly optimistic.

Yet, there are also other technology leaders who see better opportunities for raising capital in the U.S. In this respect, the swim across the Atlantic is mainly driven by the better valuations and the prospect of pricing smaller IPOs with more attractive valuations.

How does an IPO in the USA differ from one in Germany, regarding the effort involved?

I think the IPOs process is very similar with regard to the nature and volume of the legal documentation. There are certain simplifications for foreign private issuers, for example being able to follow the issuer's home country rules with a view to corporate governance matters. Also, the issuer can ask to perform a confidential review [by the SEC] prior to the filing. Our daily practice has not shown significant differences with regard to depth and scope of preparation and process.

Does 2015 still offer an attractive environment for IPOs in the USA?

The trend continues to be intact. While valuation assumptions are relatively similar to 2014 with regard to first listings, ie the trend is flattening on a high-level. However, there is still the trend on dual listed companies – also among more mature companies – where such companies cancel their second listing on NYSE or NASDAQ and withdraw from the USA.

Mr. Hummel, many thanks for the interview.