



HARDMAN & CO.



QUOTED
COMPANIES
ALLIANCE

Good jobs come to those who IPO

The importance of going public

By Hardman & Co

in collaboration with the Quoted Companies Alliance

Table of contents

Good jobs come to those who IPO	3
The importance of going public	3
Our analysis and results.....	4
Conclusion	10
Methodology	11
Data sources and our universe	11
Disclaimer	15
Status of Hardman & Co's research under MiFID II.....	15

Good jobs come to those who IPO

The importance of going public

Do companies that go public generate jobs...

We are entering a new economic era where the whole purpose of capitalism and the *raison d'être* of business are being debated. A lot of the recent focus has been on ESG and the part companies should play in achieving ESG aims, such as a net-zero-carbon economy. In other words, some “stakeholders” believe businesses should not exist simply to generate profits, but expect them to contribute to broader goals. Whilst society looks to business with increasing expectations, it is increasingly evident that companies cannot rely on Government to set the rules, but should play a part in creating the ethical code themselves.

Of the “social” aspect in ESG, many companies resort to initiatives that focus on philanthropic or charitable giving. However, one social goal that truly has the ability to impact social mobility and gets the attention of governments is the generation of jobs, and especially well-paid jobs. Coincidentally, this all comes at a time when the role and future of public markets is being challenged by ever-increasing competition from private equity (PE)¹.

...or is an IPO simply an opportunity for management and existing shareholders to cash in?

So, the simple question is this: do companies that go public generate jobs, or is an IPO² simply an opportunity for management and existing shareholders to cash in? The question is particularly pertinent for small- and mid-cap companies, often described as the “engine of growth”. This is a question about which nobody seems to have collected the data, let alone published research, at least in the UK. This paper has been written with the assistance of the Quoted Companies Alliance (QCA), and seeks to address that deficiency.



As the reader may have guessed from the title, the data from this study demonstrates that newly listed companies create jobs. For the years covered by this study, companies with a market cap, at listing, of less than £1bn, on average, grew employee numbers by between 17% and 32%, and by a further 10% to 22% in year two. For companies that started with market caps below £500m, year one saw average growth of between 20% and 34%, followed by 11% to 22% the next year.

Growth in employee numbers didn't finish in year two. Four years after listing, the “Class of 2016” (i.e. our filtered list of companies listing in 2016) had, on average, doubled its workforce. While there are, inevitably, many caveats that need to be applied to the data, it seems reasonable to conclude that companies that join the public markets create jobs, and, thus, creating healthy markets is one path to achieving that social goal of generating employment.

Besides the fact that companies that join the public markets create jobs, these markets also protect jobs. This was demonstrated during the COVID-19 pandemic. The recapitalisation of companies on public markets is well documented, with some assessing the link between the ability to access fresh equity capital and keeping businesses afloat and protecting jobs³.

¹ See our report of May 2019, *How small- and mid-cap quoted companies make a substantial contribution to markets, employment and tax revenues*.

² We are using the terms “go public”, “IPO” and “listing” interchangeably in this note. It is possible to list without raising any money and without any offering. All of the companies included in this data joined the market by IPO.

³ TheCityUK, July 2020, Supporting UK Economic Recovery: Recapitalising Businesses Post Covid-19.

Our analysis and results

Collection of various data

We collected the data for every new listing on the London Stock Exchange’s Main and AIM markets since 2016. We treated the listings in each calendar year as separate “vintages”. We then compared the disclosure on the number of employees in the first annual report after listing with the report 12 months later. Of course, the date at which these numbers are struck is unlikely to be the date of IPO and that of 12 months later, but it is the nearest approximation that is publicly available.

In the charts and tables below, we calculate the average change in the number of employees by treating each company as an equal, rather than weighting by market cap or the number of employees. If, for example, we were to just add up the additional numbers of employees for all companies, the average might be substantially influenced by just one large company listing in a year. Our method shows what happens at the average company post-IPO.

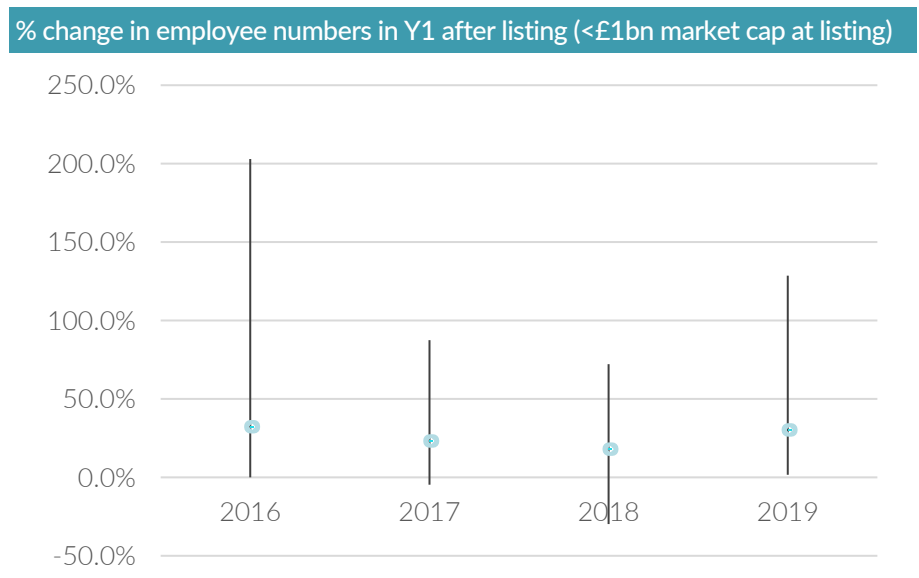
We have restricted the data to “trading companies” by filtering out certain sectors, principally investment companies, REITs and financial services. We have also excluded companies registered outside the UK, Guernsey, the Isle of Man and Jersey, as one way of approximating the impact in the UK. We have concentrated on the results for companies with initial market caps of below £1bn. We would have liked to consider data about the quality of jobs created, not just the number, but, unfortunately, we could not find such data in the time available.

For more detail and the caveats about the data, please read the methodology section at the end of this paper.

Results for companies with initial market caps below £1bn

First, we look at companies whose market cap at float was below £1bn – dividing line between large and mid-cap companies...

We have decided to use £1bn as the dividing line between large and mid-sized companies. A very consistent message appears when we look at listings of companies with an initial market cap of £1bn or less.



Source: London Stock Exchange, Refinitiv, Hardman & Co

The chart above shows a line for each “vintage”, representing the range of change in employment one year after listing, with the line showing the range between the largest increase and the smallest (or sometimes a decline), while the dot on the line is the average. For example, companies that came to the market in calendar 2016 grew employee numbers by between 0% and 203%, with an average growth of 32.3%. For those who still worry about the average, the median figure is 13.6%. It is important to interpret the chart correctly. The year label at the bottom of each line shows the result for companies that floated that year; the subsequent lines do *not* show subsequent progress in later years for companies listing in 2016, but, instead, the data for companies listing in calendar 2017, etc.

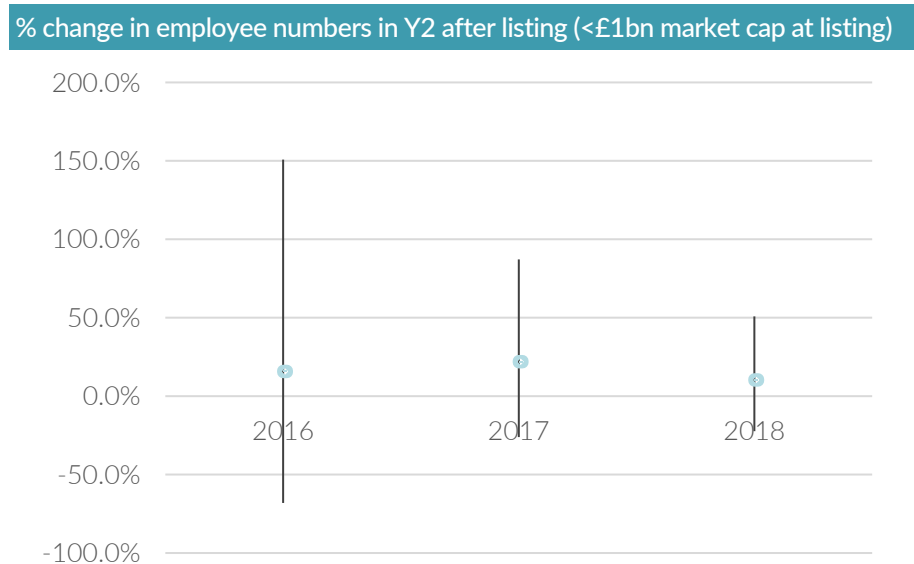
The table below gives the numbers behind the chart:

Year-on-year changes – Y1 (<£1bn at listing)				
	2016	2017	2018	2019
Largest increase	202.9%	87.5%	72.1%	128.6%
Smallest increase	0.0%	-4.7%	-29.8%	1.6%
Average % change in year 1 after IPO	32.3%	23.1%	17.9%	30.2%
Median	13.6%	15.7%	14.7%	22.5%

Source: London Stock Exchange, Refinitiv, Hardman & Co

The figures for averages and medians across the vintages fall within a relatively tight range.

Now, we examine how the picture evolves in year two of a new public company's life. We have just three lines here, because not all companies that listed in 2019 will have yet reported their year two numbers.



Source: London Stock Exchange, Refinitiv, Hardman & Co

We can worry about the range of lines, but the key takeaway is that the average increase in year two employment on year one is 15.7% for 2016 companies with a median of 8.3%. The table below gives the full detail, showing respectable growth in the average and median for all years surveyed.

Year-on-year changes – Y2 (<£1bn at listing)			
	2016	2017	2018
Largest increase	150.8%	87.2%	50.8%
Smallest increase	-68.1%	-26.1%	-22.4%
Average % change between 13 and 24 months after IPO	15.7%	21.9%	10.3%
Median	8.3%	15.4%	6.9%

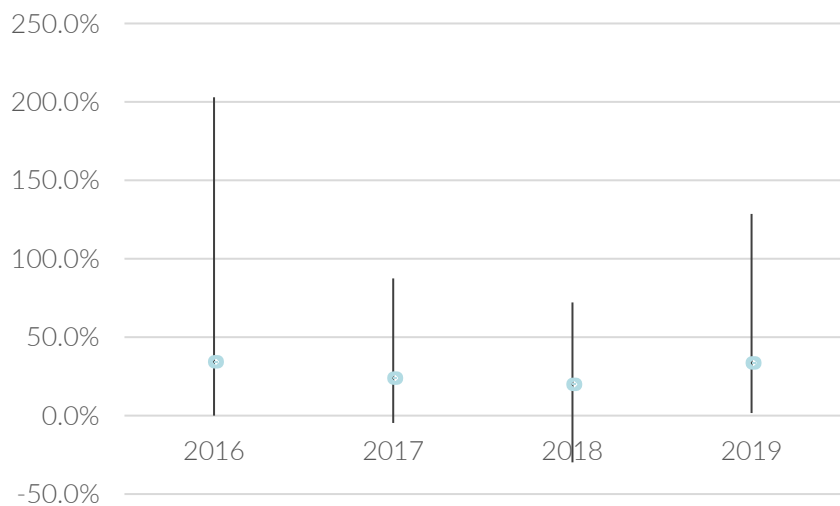
Source: London Stock Exchange, Refinitiv, Hardman & Co

...and then at those below £500m

Results for companies with initial market caps below £500m

Next, we restrict our universe to trading companies whose market cap at float was less than £500m. Clearly, these companies were included in the dataset used above.

% change in employee numbers in Y1 after listing (<£500m market cap at listing)



Source: London Stock Exchange, Refinitiv, Hardman & Co

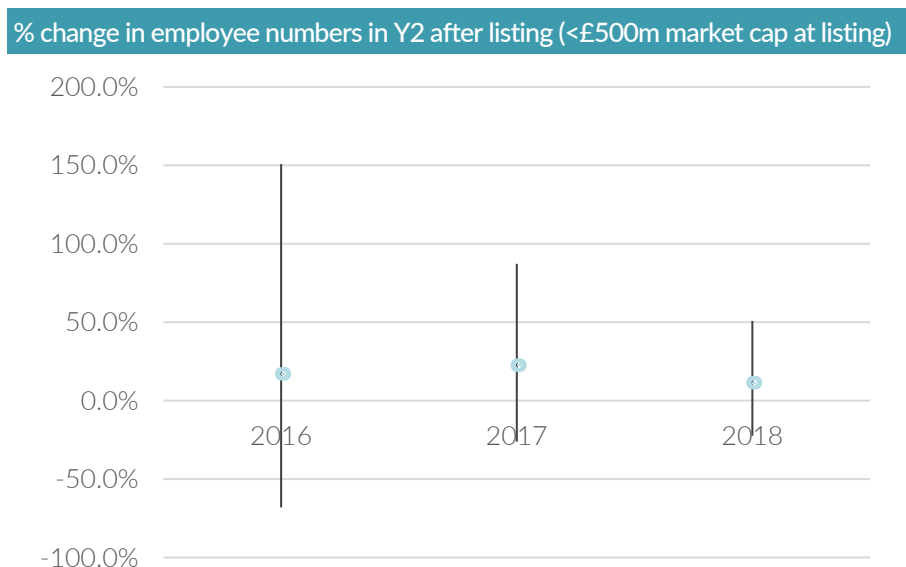
After one year, the data looks very similar to the broader universe:

Year-on-year changes – Y1 (<£500m at listing)

	2016	2017	2018	2019
Largest increase	202.9%	87.5%	72.1%	128.6%
Smallest increase	0.0%	-4.7%	-29.8%	1.6%
Average % change 12 months after IPO	34.2%	23.9%	19.9%	33.5%
Median	14.3%	17.2%	15.6%	23.4%

Source: London Stock Exchange, Refinitiv, Hardman & Co

Year two also looks broadly similar:



Source: London Stock Exchange, Refinitiv, Hardman & Co

Year-on-year changes – Y2 (<£500m at listing)

	2016	2017	2018
Largest increase	150.8%	87.2%	50.8%
Smallest increase	-68.1%	-26.1%	-22.4%
Average % change between 13 and 24 months after IPO	17.1%	22.6%	11.5%
Median	8.7%	18.1%	10.0%

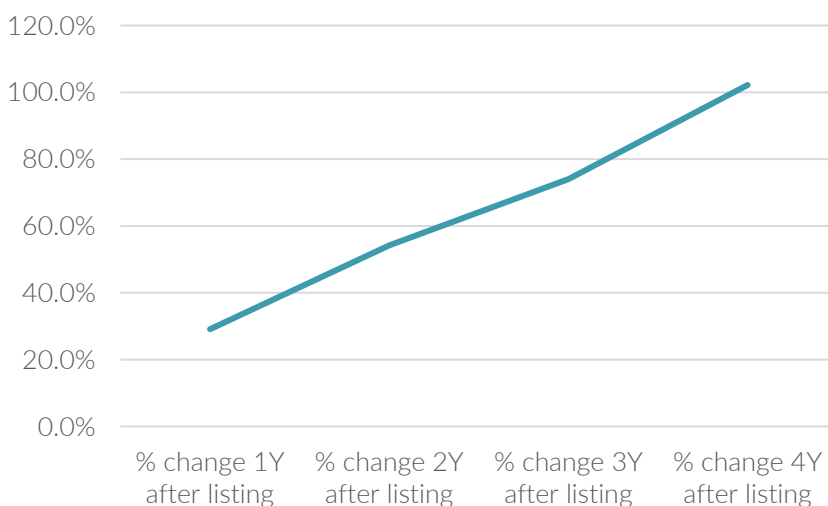
Source: London Stock Exchange, Refinitiv, Hardman & Co

Results for the longer term

No market cap restriction

Some may ask whether our observations are true for just the first couple of years after IPO. The “vintage” for which we have the most data is the class of 2016.

“Class of 2016”: cumulative % change in employee numbers



Source: London Stock Exchange, Refinitiv, Hardman & Co

The data in the chart above are for all companies listed in 2016, filtered by sector and country of registration, as before. However, there is no market cap restriction. There were 28 companies in this universe. The numbers are set out below. In short, for these companies, employment had doubled within four years of listing.

“Class of 2016”: employment

	Cumulative % change in employee numbers
% change 1Y after listing	29.1%
% change 2Y after listing	54.2%
% change 3Y after listing	74.0%
% change 4Y after listing	102.2%

Source: London Stock Exchange, Refinitiv, Hardman & Co

Results for all market caps, but filtered by sector and country of registration

Results by sector

The further one drills down, the fewer data there are, and the less one should rely on any conclusions. However, for the record, we set out below what we have found by sector. We have combined all year “vintages” into one. The table below ignores sectors with fewer than three companies. It shows the results for all market caps, but filtered by sector and country of registration, as before.

% change in employee numbers by sector after IPO			
	Average % change in employee numbers 1Y after IPO	Average % change in employee numbers 2Y after IPO (compared with Y1)	Number of companies calculated
Financial Services	26.9%	22.7%	6
General Financial	18.4%	11.5%	8
General Retailers	15.1%	14.4%	7
Healthcare	30.7%	22.4%	7
Equipment & Services			
Household Goods	18.6%	10.1%	6
Media	26.3%	10.9%	4
Pharmaceuticals & Biotechnology	37.8%	-16.7%	4
Software & Computer Services	45.5%	17.0%	13
Support Services	23.3%	18.5%	10
Travel & Leisure	17.3%	20.7%	8

Source: London Stock Exchange, Refinitiv, Hardman & Co

Companies that join public markets create jobs

Conclusion

For the years covered by this study, there is a clear conclusion – companies that list create jobs! In the first 12 months after coming to market, companies with a market cap at listing of less than £1bn, on average, grew employee numbers by between 17% and 32%, and by a further 10% to 22% in year two. For companies that started with market caps below £500m, year one saw average growth of between 20% and 34%, followed by 11% to 22% the next year.

Longer term, growth in employees continued, so that, by year four, the workforce had doubled. While there are, inevitably, many caveats that need to be applied to the data, it seems reasonable to conclude that companies that join the public markets create jobs, and, thus, creating healthy markets is one path to achieving that social goal of generating employment.

Methodology

Data sources and our universe

We collected the data, identifying the companies listing in each calendar year and the market cap on the first day, from the London Stock Exchange dataset.

We refined these data by filtering for two characteristics.

First, we eliminated a number of sectors that we believe commentators would not consider in a discussion looking at employees (investment companies, for example, that themselves may not have any employees at all – just a subcontracted fund manager). The full list of excluded sectors, with the number of IPOs during the period in brackets, is as follows:

- ▶ Banks (4)
- ▶ Closed end investments (7)
- ▶ Equity investment instruments (42)
- ▶ Financial services (10)
- ▶ General financials (16)
- ▶ Investment banking and brokerage services (7)
- ▶ Life insurance (2)
- ▶ Non-equity investment instruments (39)
- ▶ Open end and miscellaneous investment vehicles (7)
- ▶ Real estate investment services (3)
- ▶ Real estate investment trusts (7)

Secondly, since we are seeking to estimate the impact of IPOs on employment in the UK, we excluded any company that was not registered in the following territories:

- ▶ Guernsey
- ▶ Isle of Man
- ▶ Jersey
- ▶ United Kingdom

The remaining companies after this filtering are described as “Selected IPOs” in the table overleaf.

The number of employees is taken from the annual accounts. Unfortunately, the data for all relevant years were not available for all the companies on the Selected IPO list, and those companies were also eliminated from our final dataset. The remaining companies, for which we have all the data, are referred to as “Selected IPOs with data” in the table overleaf.

London Stock Exchange IPOs 2016-2020

		UK Main Market	AIM	Others	Companies with data available	Total
2016	All IPOs	25	42	3		70
	Selected IPOs	12	27			39
	Selected IPOs with data				28	28
2017	All IPOs	46	50	12		108
	Selected IPOs	14	31			45
	Selected IPOs with data				32	32
2018	All IPOs	40	42	7		89
	Selected IPOs	16	29			45
	Selected IPOs with data				33	33
2019	All IPOs	23	10	3		36
	Selected IPOs	10	8			18
	Selected IPOs with data				11	11
2020	All IPOs	23	16	11		50
	Selected IPOs	6	10			16
	Selected IPOs with data				8	8

Source: London Stock Exchange, Hardman & Co

Thus, as an example, calendar 2016 saw 25 IPOs on the Main Market and 42 on the AIM, with three in the International segment, giving a total of 70 IPOs. When our filters for sector and country of registration are applied, this is reduced to 39. Full data were available for just 28.

Caveats or issues to bear in mind

- ▶ **The date of the annual report.** The data for the number of employees are taken from the annual reports published by the companies. The baseline is the figure given in the first report after IPO. Obviously, this is unlikely to be the date of the IPO, but it is the nearest point for which data are publicly available. The change in employees in year one after IPO compares the first report after IPO with the next report. Again, it is unlikely that the numbers will be for the date of IPO and exactly 12 months later; hence the figures quoted are an approximation, and the best data we have.
- ▶ **The data for employees are the total revealed in the annual reports.** We have not been able to distinguish between UK and non-UK totals. It is possible that a company registered in the UK has grown employee numbers, but that this increase occurred outside the UK, while the UK total may even have fallen – a fact disguised by the total. We try to make some adjustment for this by excluding foreign-registered companies and by leaving out companies with an initial market cap above £1bn, because these are more likely to be multinational; we used the resulting dataset for the sections on companies with market caps below £1bn and £500m.
- ▶ **In our filtering, we have excluded certain sectors.** Some commentators may disagree about the sectors left out or about particular companies within those sectors. We had to draw a line somewhere, and our approach contributed to the ease of calculation.
- ▶ **Some might disagree with us excluding non-UK registered companies.** An overseas-registered company could have UK employees. Again, it made calculation of the results easier.
- ▶ **Some of our data have been split into baskets according to market cap.** Clearly, market caps change over time. The basket to which a company is allocated in our work is determined by its initial market cap. It will not move baskets, whatever happens to its market cap in subsequent years.

Good jobs come to those who IPO – The importance of going public

- ▶ **In calculating percentages, we have used an average of the percentage changes for all the companies in that basket.** Thus, every company counts as much as any other, and a smaller company's percentage change is not drowned out by a larger employer.
- ▶ **We have focused on the percentages for each "vintage" as a whole.** The further we drill down, for example looking at sectors by years, the fewer datapoints we have and the less reliable as an indicator the results become.
- ▶ **Finally, helpful as our data are, they do not prove a causal relationship between IPOs and job creation.** No-one can know whether these jobs would have been created without an IPO.

About the authors



Keith Hiscock, CEO, Hardman & Co

As Chief Executive, Keith is personally responsible for the firm's relationships with its corporate clients and also for corporate finance. In addition, he is the author of several articles tackling the issues facing companies in today's climate.

Keith has more than 40 years' stockbroking experience and has developed long-standing relationships with many major institutional investors, including Private Client Brokers and Wealth Managers. He started his career at James Capel, at the time the top-ranked research house in London. He was a founding member of Schroder Securities and of Agency Partners, a leading research boutique house, and was a member of the five-man securities board at Evolution. Keith has also advised companies, large and small, on their relationships with the capital markets.



Yingheng Chen, senior financial analyst, Hardman & Co

Yingheng has particular experience in the markets for palm oil, cocoa, citrus, coconut, Jatropa and sugar. She worked as a corporate finance analyst at the Agricultural Bank of China, and is fluent in Cantonese and Mandarin. She has a thorough understanding of the Chinese financial and business markets, as well as of those in the UK.

Yingheng joined Hardman & Co in 2008. She holds the Chartered Financial Analyst Level 2 qualification, together with a BSc in Economics from the London School of Economics.



Tim Ward, CEO, Quoted Companies Alliance

Tim is CEO of the Quoted Companies Alliance, the independent membership organisation championing the interests of small to mid-size quoted companies. His past roles have included Head of Issuer Services at the London Stock Exchange, Finance Director at FTSE International, the index company, and various management roles at a smaller quoted company.

Tim is a Chartered Accountant, has an MBA from Henley Business School and is a qualified executive coach and mentor.



Jack Marshall, Senior Policy Advisor, Quoted Companies Alliance

Jack is the Senior Policy Adviser of the Quoted Companies Alliance. Having joined in January 2019, he is responsible for supporting the development of the organisation's policy positions, responding to consultation papers, overseeing stakeholder engagement and coordinating the work of the seven policy Expert Groups.

Prior to joining the Quoted Companies Alliance, Jack worked as a Public Affairs Assistant for a major international charity, and worked briefly in the offices of two Members of Parliament.

Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at <http://www.hardmanandco.com/legals/research-disclosures>. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

This document constitutes a 'financial promotion' for the purposes of section 21 Financial Services and Markets Act 2000 (United Kingdom) ('FSMA') and accordingly has been approved by Capital Markets Strategy Ltd which is authorised and regulated by the Financial Conduct Authority (FCA).

No part of this document may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, photocopying, recording or otherwise, without prior permission from Hardman & Co. By accepting this document, the recipient agrees to be bound by the limitations set out in this notice. This notice shall be governed and construed in accordance with English law. Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the FCA under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259.

(Disclaimer Version 8 – Effective from August 2018)

Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January, may be unclear about the status of Hardman & Co research and, specifically, whether it can be accepted without a commercial arrangement. Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public...'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: <http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf>

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.

