OnMarket

Capital Report

2021 OnMarket Capital Raising Report

SPP Harvester

2021 SPP Harvester Review

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At the onset of COVID, companies showed admirable agility by raising a record amount of equity to shore up their balance sheets. This resulted in over $3bn of new equity being issued via 61 Share Purchase Plans (SPPs) in 2020. By the beginning of 2021, many companies had an equity buffer in place and the need for additional equity was significantly reduced. Indeed, some of the top 20 companies embarked on equity buy-backs, including the top 4 banks.

In addition to the stronger company balance sheets, the Reserve Bank of Australia (RBA) maintained their accommodating monetary policy, ensuring interest rates remained at record lows during 2021. At the same time tax relief flowed to 11.5 million Australians, including $10.2 billion in the September quarter. Unsurprisingly these measures had a positive effect on household and business savings, which increased by $360 billion during the pandemic.[2]

Against this background, the number of companies issuing new equity via SPPs during 2021 was considerably lower. And those that did issue new shares were able to do so at less of a discount. However, the outlook for business investment appears strong, with the latest ABS survey implying record investment intention across the non-mining sector this financial year. There is also a healthy pipeline of construction activity with 153,000 approvals over the year.[3] This, combined with the likelihood of a less accommodating monetary policy by the RBA, should lead to the level of SPP activity and SPP discounts reverting to more normal levels next calendar year.

2. AFR Savings and surpluses cushion economic pain - Ronald Mizen Nov 30 2021
3. AFR Govt support has set up strong recovery in 2022 – Josh Frydenberg – Dec 1

Overview

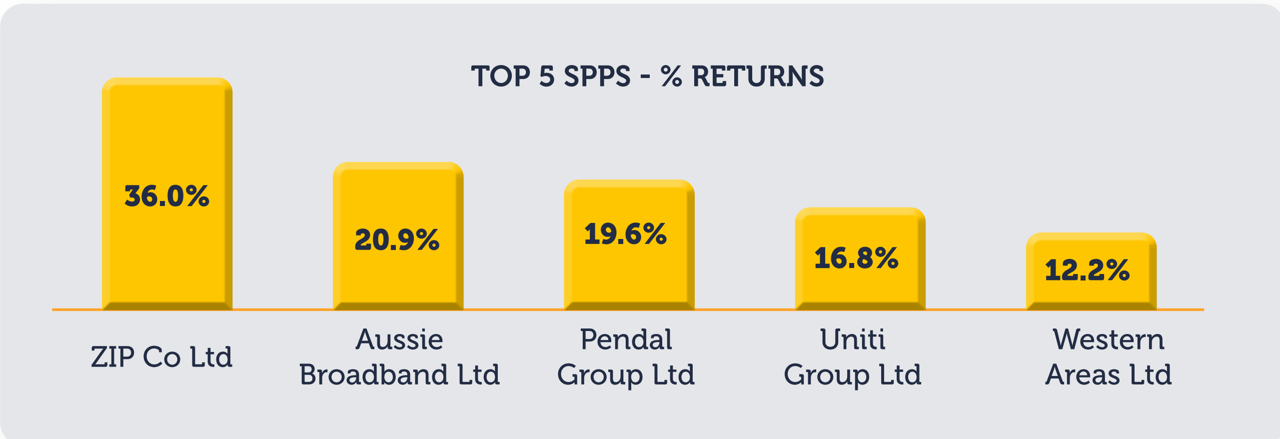
2021 marked the first full calendar year of operation for SPP Harvester, with SPP Harvester investors gaining access to 22 Share Purchase Plans (SPPs), of which 18 were in-the-money. After a record 61 SPPs by SPP300 companies in 2020, the general level of capital raising activity undertaken in the form of SPPs by ASX listed companies during calendar 2021 was noticeably lower. By way of comparison, SPP Harvester had participated in 36 share purchase plans from May to December 2020. Nonetheless, the total number of SPPs made available to SPP Harvester investors in 2021 was in line with the 10-year average of 22 eligible SPPs for a calendar year.

Whilst the number and discount of SPPs in 2021 was down on 2020, it was another profitable year for SPP Harvester investors with a return of $15,813[4] based on a $30,000 application into every eligible SPP Harvester SPP.

Discounts & Returns

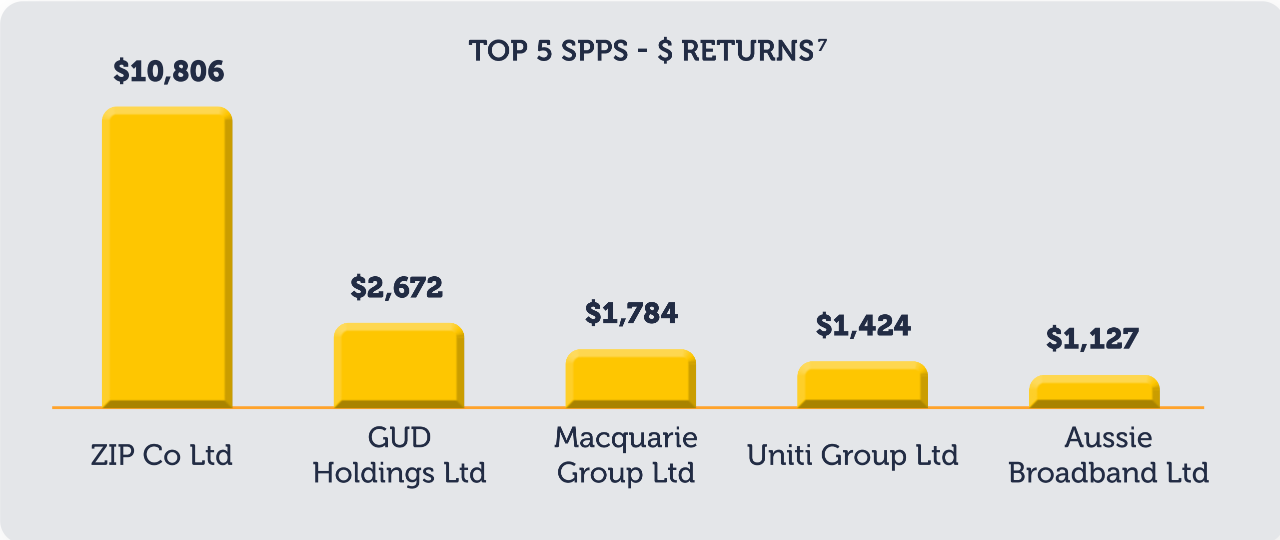
The magnitude of the discounts via Share Purchase Plans offered to retail investors as at the SPP announcement date ranged from 1.9% to 18.8%. The average discount of SPPs at the SPP announcement date for 2021 was 6.4%, 5.9% lower than in 2021 on the back of an accommodating monetary policy that saw household and business savings increase by $360 billion during the pandemic.[5] This reduced the need for companies to incentivise investors to participate, resulting in lower discounts in 2021.

However, given the lead time between SPP announcement and the SPP Harvester Application date, the discount wasn't always indicative of returns. Some of the year's best percentage returns came from SPPs with the lowest discounts. Zip Co. Ltd, 36% return, had a discount at the SPP announcement date of just 4.1% while Uniti Group Ltd set their SPP price at a 1.4% premium to the market price before SPP Harvester investors realised a 16.8% return.

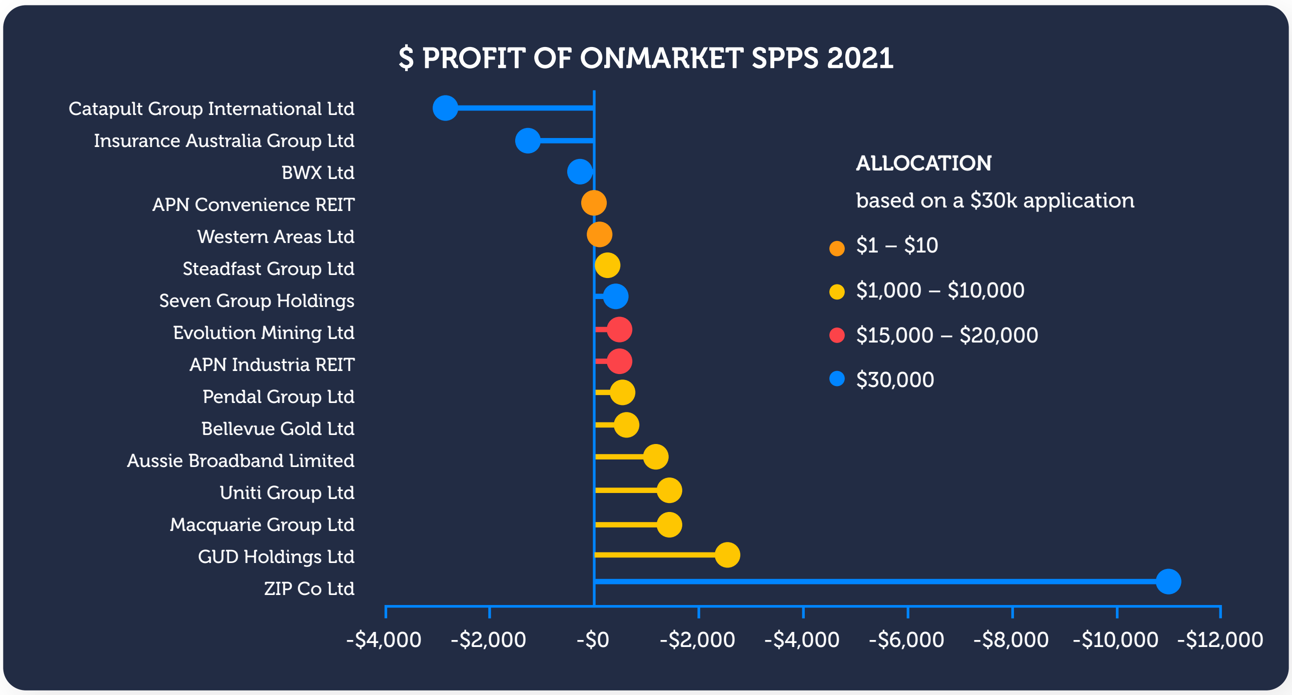


4. Before brokerage and fees
5. AFR Govt support has set up strong recovery in 2022 - Josh Frydenberg - Dec 1

75% of SPPs in 2021 showed positive returns, headlined by the performance of Zip Co Ltd, where investors realised a 36% return on a full allocation. The strong performance of Zip Co Ltd's SPP came on the back of their Q2 results announcement highlighting an 88% increase in revenue year-on-year that saw their share price increase 25% in the days following the announcement. Zip Co Ltd's SPP was followed by the strong returns of Aussie Broadband Ltd, 20.9% and Pendal Group, 19.6%.



When it came to dollar returns in 2021, Zip Co. Ltd was again the standout, returning $10,8074 based on a $30,000 application, followed by GUD Holdings Ltd with a $2,672 return. SPP Harvester investors who applied for $30,000 into every SPP realised a return of $15,813.[6] Those investors who applied for $10,000 into every SPP, had returns of $5,704 for SPPs sold in 2021. Pleasingly these returns came from an average holding period of just 19 days per SPP, enabling SPP Harvester investors to recycle their capital into the next SPP.



6. Based on a $30,000 application, before brokerage and fees

Analysis & Strategy

After a huge influx of capital in 2020 and large discounts being offered at an average of 11% (2% higher than the 10-year average), it is not surprising that 2021 saw reduced discounts and less capital raised from the top 300 ASX-listed operating companies. The average discount in 2021 based on the close price prior to the announcement date was 6.4%, noticeably lower than 2020 and this contributed to a slightly lower average return in 2021.

Despite reduced discounts, 12 out of the 16 SPPs that SPP Harvester received allocations in 2021 produced positive returns. Of course, scaleback on allocations does have an influence on returns, with investors receiving an average of 56% of their application in 2021. With the biggest returns coming from only a few SPPs, trying to 'pick the winners' is not necessarily the most profitable method.

We view SPP Harvester as a medium to long term investment opportunity. What we have seen, since SPP Harvester was launched 18 months ago, is the benefits of the aggregation of marginal gains. The accumulation of small gains over time resulting in a significant, profitable return in the long term. With average discounts down to 6.4% and average returns at 7.6% in 2021, SPPs did not perform as well as they did in 2020. However, with a short holding period of just 19 days on average and maximum funding requirement of $90,000, an SPP Harvester investor who applied for $30,000 into every SPP made available would have seen a total return of 15.6%[7] for the 2021 calendar year, outperforming the ASX200 by 5.9% and almost double that of the average return.

The aggregation of marginal gains and the ability to efficiently recycle capital into each SPP, ensured SPP Harvester investors received healthy returns. The stronger outlook for the economy augers well for Share Purchase Plans in 2022.

7. Before brokerage and fees

Disclaimer

All data is OnMarket data or has been sourced from Thomson Reuters, Sharesight or ASX. Whilst every care has been taken to ensure the accuracy of information contained in this report, we accept no liability for any error or omission, nor for any action taken in reliance on any statement or opinion in this report. No statement or opinion in this report is intended to be construed as investment advice. Properly considered professional advice should always be sought if in doubt regarding the merits of any investment.

1Note: All data included in the report excludes Exchange Traded Funds (ETFs), debt issues, and spinoffs.

2Note: Compound money-weighted annualised return is a return independently calculated by Sharesight that weighs the capital gains based on the average years invested for every dollar.

3Note: Discounts are based on the placement discount announcement as disclosed by the company to ASX, unless otherwise specified in the company's ASX announcement.

4Note: The return on all Share Purchase Plans (SPP) is based on applying for $30,000 into each SPP available via SPP HarvesterTM, before brokerage and fees, including dividends received from SPP shares.

Assumptions:

- The same value is invested into each IPO
- The investment is required to be paid 20 days prior to the IPO listing date (this represents the median period between payment and listing for all OnMarket IPOs)
- The investment is sold at the end of the relevant holding period at the closing price for that day or (in respect of IPOs where the relevant holding period had not been reached by 17 Dec), 17 December 2021
- $30,000 is applied for into every Share Purchase Plan (SPP) through SPP Harvester™

Excerpts from Sharesight.com

Sharesight calculates percentage returns using a dollar-weighted (also referred to as a 'money-weighted') return methodology. A dollar-weighted return measures investment performance taking account of the size and timing of cash flows.

The other widely used approach in performance measurement is the Time Weighted Return. In this method the effect of cash inflows and outflows is removed from the calculation. This is commonly used when evaluating fund manager performance. The reasoning behind this approach is that fund managers don't control when money flows into and out of their fund – investors control that – so it is not reasonable to include that effect when evaluating the manager.

Investors, in contrast can control the timing of when they put money in or out of the portfolio. For this reason it is widely agreed that a dollar-weighted return is the most appropriate means of measuring performance from a private investor's point of view.

Returns can be annualised based on the principles of a simple annualised return or by using a compound annual growth rate (CAGR).

A simple annualised return simply divides the rate or return for the period by the number of years in the investment period. A compound annual growth rate calculates the year on year growth rate that would be required to achieve the same result.

Sharesight annualises returns weighting the length of time that each capital input has been invested for, by the amount of capital invested to determine the average years invested (AYI) for each dollar of capital. A compound annualised return raises the rate of return for the period to the inverse power of the average years invested (AYI).

Read More: https://help.sharesight.com/au/performance_calculation_method/

Simple average return: The simple average return is calculated using an average of each individual security's return.

Like any other mathematical average, each return is summed and divided by the number of returns used in the calculation.

Performance of all OnMarket IPOs is available on the OnMarket website.

www.onmarket.com.au