MEDIA RELEASE

Small IPOs Outperform Larger Company Floats

Most profitable IPOs could be barred by proposed ASX rules

30 August 2016: When it comes to investing, many of us think that bigger is better. But when it comes to Initial Public Offerings (IPOs), the reverse may be true. Recent research by OnMarket BookBuilds reveals that of more than 1,000 IPOs that have gone through the Australian Securities Exchange (ASX) since 2005, the returns from smaller IPOs have been markedly better than those from larger ones.

In the year after listing, company IPOs raising less than $50 million returned an average of 9.9% to investors, against 5.8% for floats valued at more than $50 million, the research by OnMarket BookBuilds shows.

“The sample of 1,049 IPOs from 2005 to 2015 analysed by OnMarket convincingly reveals that smaller IPOs outperformed bigger IPOs by around 70% in their first year of trade,” said Ben Bucknell, chief executive of OnMarket BookBuilds (OMB).

“It is interesting to see that floats of micro-cap companies have outperformed larger IPOs as well in their first year of trading. Companies with market capitalisation of less than $20 million materially outperformed larger IPOs.

“Unfortunately, this higher performing group of companies will be blocked from listing under the changes that ASX has proposed to the listing rules. ASX is proposing to bring in these new rules on 19 December, in the last week of the year prior to the Christmas holidays,” said Bucknell.

“Whether this trend of smaller IPOs outperforming will continue is an open question, but it does dispel some misconceptions about the quality of smaller IPOs and their performance,” said Bucknell.

Company floats on the ASX have delivered strong returns to investors this year. The *OnMarket July IPO Report 2016* reveals that the average return from the 43 companies which had listed on ASX from January 1 to July 31, 2016, was 26.2%, outpacing a return of 5% from the S&P/ASX 200.

These returns build on an impressive IPO performance in 2015, when the average return of the 93 companies that listed on ASX that year was 23%. That compares well with the S&P/ASX 200, which lost 3% in the same period.

“The important point for investors is not to purely focus on large-cap stocks but to get a diversified exposure to IPOs and to identify companies backed by solid numbers, solid growth plans and good management.”

“Investors can use the OnMarket app and portal to research and invest in a broad range of IPOs, without paying commission or brokerage, with several companies now offering their equity directly to the public through this digital platform, enabling all investors to easily buy into these important high-growth investment opportunities,” said Bucknell.

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About On-Market BookBuilds (OMB)

OnMarket BookBuilds' mission is to empower investors and companies through innovation in financial technology. OMB believes that investors and companies benefit when capital raisings are conducted fairly, transparently, and efficiently. The company's new OnMarket app and bidding platform is a wholly-owned and operated initiative of OMB. The OnMarket app and bidding platform is not a joint venture with ASX and is independent of OMB's association with ASX in relation to the ASX BookBuild facility.