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Insights

LONDON: THE OPTIMUM IPO VENUE FOR ISRAELI GROWTH COMPANIES

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SUMMARY

For the vast majority of Israeli and Israel-related companies considering an IPO, London should continue to be the venue of choice. London has greater access to capital and liquidity than the Tel Aviv Stock Exchange and lower barriers to entry than US markets, as well as greater opportunities for index inclusion.

The common narrative in the media that valuations in US capital markets are superior does not fully reflect the reality. While some of the largest and most successful companies have achieved attractive valuations in the US[1], a US IPO is realistic only for the very largest Israeli private companies. Furthermore, for the vast majority that have chosen this route in recent years, post-IPO share price performance has been extremely disappointing.

Whilst the geopolitical situation for Israeli and Israel-related companies is currently challenging, we expect that, once the situation stabilises, there will be increasing interest from those companies about listing in London, particularly as the UK's forthcoming "once in a generation" capital markets regulatory reforms take effect.

WHY IPO?

While some companies in recent years have chosen to remain private for longer, often taking advantage of an ever-increasing range of venture capital funding options, a public listing can bring benefits which support a company's growth in a way continued private ownership cannot.

Listing facilitates highly efficient access to capital on an ongoing basis. Private fundraisings can be protracted, often involving extensive negotiation of terms with multiple investors and potentially the creation of additional classes of shares with preferences and specific rights. Follow-on capital raising in public equity markets can potentially be completed very quickly, often being launched and closed the same day in the UK based on a relatively straightforward stock exchange announcement.

Shares can also be issued as consideration for acquisitions, potentially facilitating M&A activity while preserving cash and avoiding excessive levels of debt.

Listing also provides the enhanced profile and status of being a public company and importantly allows a company to retain its independence. There is no need to provide board seats to, or run every decision past, investors. Many founders prefer to remain in control of their company, accountable to public shareholders, rather than effectively working for a private equity investor.

In addition, there is an ability to incentivise employees by providing publicly listed (and therefore liquid) equity, allowing staff to participate in the success of the business and to realise their investment when the time is right for them. The private equity industry has taken the lead from public companies in this respect, with PE-backed businesses now increasingly providing some form of equity-based incentivisation for employees, albeit that will typically be illiquid and capable of being realised only when the private equity firm eventually exits its investment.

WHY LONDON?

London is a proven listing venue for Israeli and Israel-related companies. There are currently 22 such companies listed in London, including the success stories of Plus500, Playtech, Evoke (formerly 888 Holdings), Windward, Energean and Ithaca Energy, with a combined market capitalisation of $10.3 billion.

London is one of the deepest pools of international capital. It has a broad investor base providing proven levels of sustained liquidity in a central time zone. London also has an extensive and high-quality capital markets infrastructure, with a highly sophisticated advisory community and breadth of sell-side research coverage.

Since exiting the European Union, the UK has been able to establish its own capital markets regulatory framework, which has led to the wide-ranging programme of reforms that are currently taking place. The policy aim is to put in place regulation which is competitive with other leading capital markets while retaining the UK's reputation for high standards of corporate governance.

BUT VALUATIONS ARE BETTER IN THE US, AREN'T THEY..?

First, it is important to understand the differences between the typical sizes of companies listed in the US and the UK and what that means for companies considering an IPO. A unicorn (meaning a company valued at $1 billion or more) which listed in London would enter the FTSE 250 and would be one of the 25 largest technology companies listed on the London Stock Exchange. A company of that size is now considered a small cap company in the US. The London market is also receptive to earlier stage companies than the US.

There is also a clear domestic bias in US markets. Investors in US listed companies are overwhelmingly US-based. By contrast, London provides access to UK institutions (including both specialists and generalists), while also facilitating access to a greater proportion of international investors. Indeed, since 2019, 81% of institutional capital invested in US IPOs was invested by US-based investors, whereas 50% of institutional investment in UK IPOs was from UK investors, with the balance coming from the North America, Europe and the rest of the world.[2]

It could therefore be argued that US markets are characterised predominantly as facilitating domestic US investment in US companies, whereas London is more international in nature. Analysis of post-IPO share price performance also supports the proposition that overseas companies do better in London than in the US. While some international companies such as Arm and Nubank have traded strongly, international companies that listed in the US since 2019 have overall significantly underperformed domestic US companies that have listed in the same period. This contrasts with London, where overseas companies have outperformed their domestic UK peers.[3]

It is also significantly more expensive to IPO and maintain a listing in the US than in the UK, as fees are much higher in the US and the regulatory burden is significantly greater. The UK requires half yearly reporting (rather than quarterly, as in the US) and there is no need for companies listed in the UK to comply with the Sarbanes-Oxley Act. Furthermore, the differences between IPO and ongoing costs in the US and UK is significant and the cost savings achievable in the UK can be genuinely material to growth companies, with the added benefit of less management time being spent on compliance and reporting.

In addition, securities litigation is extremely common in the US, whereas it is rare in the UK, meaning that litigation and wider legal risk is considerably reduced on a UK IPO as compared to a US transaction, which also results in reduced premiums for directors and officers liability policies.

In summary, the headlines about valuations in the US and the attractiveness of the US markets are misleading. While the largest US listed companies have indeed commanded high valuations, a US IPO is not a realistic (or at least advisable) prospect for a company valued at less than $1 billion, and increasingly is out of reach for companies valued at less than $2 billion. Even for companies that are able to IPO in the US, for all but the largest overseas companies the London Stock Exchange is likely to be a more attractive listing venue due to factors including greater profile and a more diverse investor base with a more international focus.

HOW ABOUT AMSTERDAM, OR MAYBE PARIS?

While European markets have attempted to increase their market share of IPOs following Brexit, this has met with little success and London remains Europe's No. 1 exchange on multiple metrics. The London Stock Exchange is the largest market for equity capital raising outside of the US and Greater China. There are more companies listed in London than in Paris, Frankfurt and Amsterdam combined and more capital was raised in London in 2023 than was raised in aggregate on the next two European exchanges, Stockholm and Frankfurt.

HOW ABOUT TASE?

TASE is generally a domestic exchange, while the London Stock Exchange is a global exchange which is home to many international companies. The difference in scale is clear, with 1,795 companies listed on the London Stock Exchange compared to 534 on TASE with a combined total market cap of $6.0 trillion on the London Stock Exchange compared to $275.6 billion on TASE. The average daily trading volume in London is $9.0 billion compared to $0.4 billion on TASE with approximately 7,000 institutional investors investing through the London market compared to only approximately 11% of that holding stocks in Tel Aviv.[4]

While TASE may suit some companies, the London Stock Exchange is a deeper pool of capital, with a more diverse range of investors, greater liquidity and a higher profile. Therefore, for ambitious companies with global ambitions, the London Stock Exchange is unarguably a better platform to support their growth.

A WELL-ESTABLISHED ROUTE TO GROWTH

There are numerous examples of Israeli and Israel-related companies, particularly in the technology sector, using the London Stock Exchange to support their expansion. For example, Plus500 (full disclosure – Plus 500 is a BCLP client) initially listed on AIM in July 2013 raising $75 million / £50 million with an initial market capitalisation of $200 million / £132 million. It moved to the Premium segment of the Main Market in June 2018 and joined the FTSE 250 in September 2018. Since its IPO, the company has returned to the market six times raising a total of $861 million / £633 million. Its current market capitalisation is $2.2 billion / £1.7 billion.

Kape Technologies (another BCLP client) was admitted to AIM in September 2014 with a market capitalisation at admission of $250 million / £153 million. Following its IPO, Kape returned to the market three times, raising a total of $692 million / £537 million. Kape was subsequently taken private with a market capitalisation at delisting of $1.6 billion/ £1.2 billion.

There are many similar stories and Israeli companies and entrepreneurs are strongly supported by a network of advisers and service providers in the UK who have deep ties to Israel and with extensive experience of supporting Israeli companies.

London's relatively close proximity to Israel and similar time zone also increase connectivity, meaning that working and transacting between Israel and the UK can be effectively seamless.

CONCLUSION

London is committed to being a hub for connecting high growth companies from across the globe with the capital they require, and is creating one of the most founder-friendly regulatory regimes in the world. With the rule changes coming into effect in the second half of this year, London has never been more attractive as a listing venue and we anticipate that the strong connections between the UK and Israel will mean many more exciting companies will choose London for their IPO.

BCLP has a representative office in Tel Aviv and has been advising Israeli companies for decades. We are one of the best-known international law firms working with Israeli clients and have advised on a significant proportion of the Israel-related IPOs that have taken place on the London Stock Exchange.

FOOTNOTES

[1] This is a complex area about which much has been written. While P/E ratios are greater on average for companies listed in the US as compared to UK listed companies, this is in part due to the differing sectoral composition of the respective markets, with the US market for example including a greater number of technology companies, which tend to attract higher ratings. Various analyses have been undertaken which suggest that, even adjusting for this, average P/E ratios tend to be greater for companies listed in the US than in London. However, this does not mean that a US listing is necessarily the most attractive route (or even a viable option) for the vast majority of Israeli companies, as this article explains.

[2] *Source: London Stock Exchange Group data.*

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[4] *Source: London Stock Exchange Group.*

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