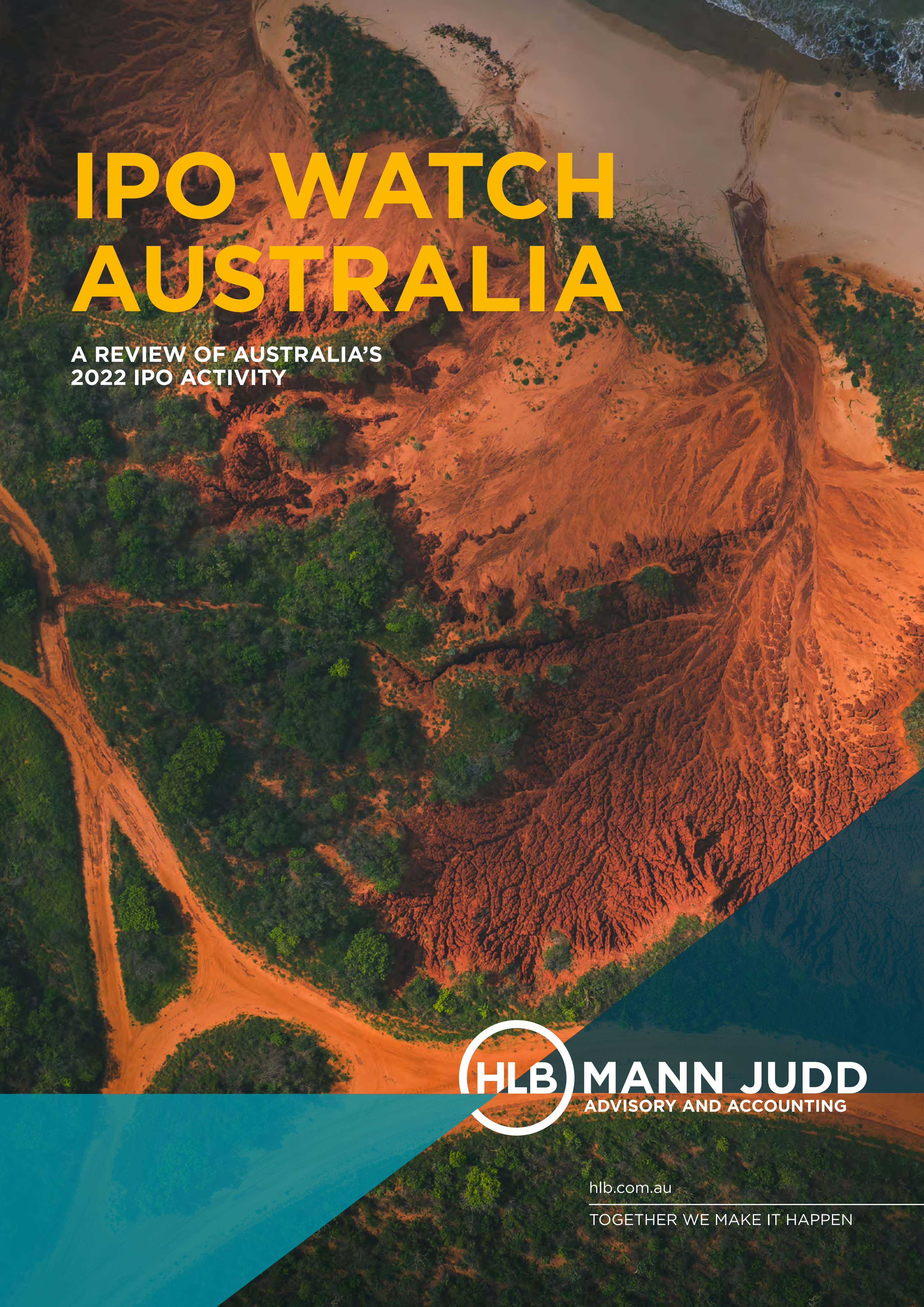


IPO WATCH AUSTRALIA

A REVIEW OF AUSTRALIA'S 2022 IPO ACTIVITY

HLB MANN JUDD
ADVISORY AND ACCOUNTING

hlb.com.au

TOGETHER WE MAKE IT HAPPEN

ABOUT IPO WATCH AUSTRALIA

Established in 2004, IPO Watch Australia is a benchmarking-based report. The research, led by HLB Mann Judd Perth, analyses Australian listing activity. The primary report is released in January, and it analyses IPO activity from the previous 12-month period. A second, short-form, report is published in July and focuses on the first six months of the calendar year (IPO Watch Australia Mid-Year Report).

Both reports are authored by Corporate & Audit Services Partner, Marcus Ohm and co-written by Isabel Godfrey. The report commentary articulates key data points and explores themes arising from market activity.

IPO Watch Australia is widely recognised in the market and is routinely referenced by clients, national media and the broader business community.

Disclaimer – The analysis presented in this report relates to all initial public offerings (IPOs) that have resulted in the listing of an entity's securities on the Australian Securities Exchange (ASX) with the exception of compliance, backdoor listings and offers of non-equity securities.

The term "small cap" is used to refer to companies with a market capitalisation of less than $100 million. All analysis by reference to market capitalisation on listing is based on the price at which new securities were issued.

While 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.

Liability limited by a scheme approved under Professional Standards Legislation.

CONTENTS

FOREWORD

Marcus Ohm
Partner
Corporate & Audit Services
Perth

HEADWINDS FOR THE IPO MARKET IN 2022

2022 was a challenging year for the Australian IPO market, reflecting difficult conditions for both the Australian and global stock markets. There were a number of contributing factors such as macroeconomic and geopolitical issues and rising inflation, which resulted in central banks lifting interest rates for the first time in some years. The impact on stock markets was significant with the effect of inflation and rising interest rates being strongly felt.

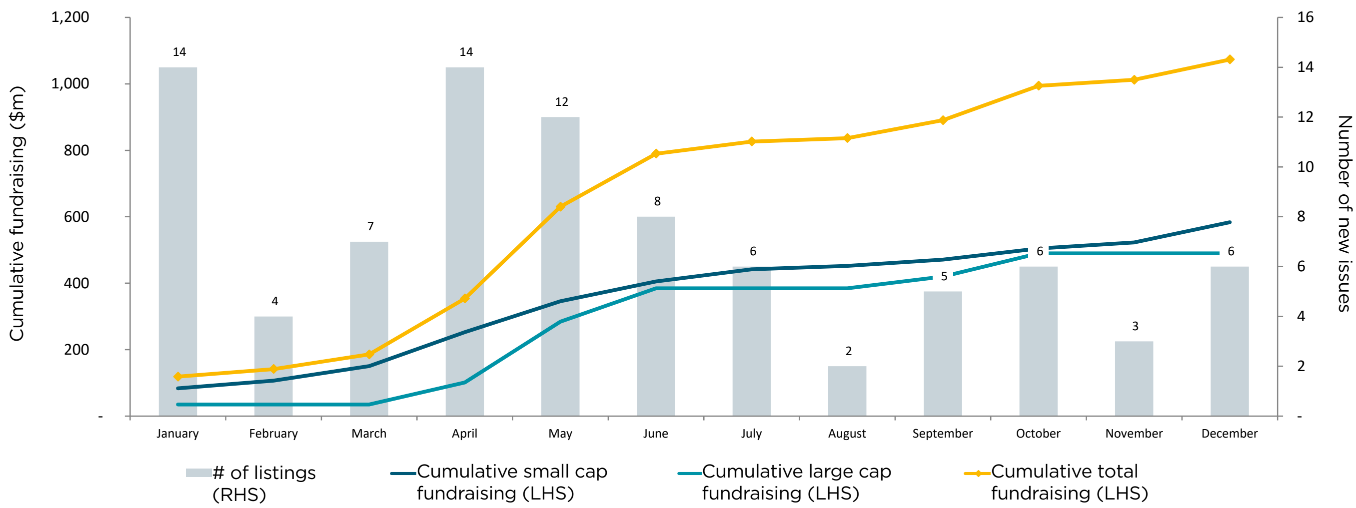
Reflecting these conditions and the resulting investor sentiment, amounts raised through IPOs fell 91% in 2022.

There were 87 new listings in 2022, compared to 191 in 2021, representing a fall of 54%. Initially there were solid expectations for the year following a record number of listings in the second half of 2021 and a healthy pipeline of companies looking to list in early 2022. At the mid-year point of the year, there had been 59 new listings which was comparable to the 61 at the same stage in 2021. However, the IPO market all but dried up in the second half of the year with no single month from June onwards recording a double-digit number of listings. Second half listings only accounted for 32% of the total for the year (2021: 68%) and the number of upcoming listings according to the ASX continues to look bleak, suggesting that the slowdown in 2022 is likely to continue into the early part of 2023.

Total funds raised in 2022 reached $1.07 billion compared to the record-breaking amount raised in 2021 of $12.33 billion. The amounts raised were also significantly below 2020 ($4.98 billion) and 2019 ($6.91 billion). Notably, there were fewer listings in 2020 (74) and 2019 (62) than in 2022, reflecting the contributions from large cap listings in these prior years.

Average funds raised fell from $64.54 million in 2021 to $12.34 million in 2022. The decrease in average funds raised can be largely attributed to the make-up of listings in the year. Of the 87 listings

IPO VOLUMES AND FUNDS RAISED



in the year, 78 were small cap companies (with a market capitalisation less than $100 million), and these represented 90% of the total number of listings. In contrast, small caps made up 76% of 2021 listings and 58% of 2020's listings.

Small cap entrants raised 54% of total funds in the year, a considerably higher portion of total funds than the 11% contributed by small caps in 2021. Small cap entrants raised an average amount of $7.48 million each against average target raises of $8 million each. In total, 68% of small cap entrants raised the amount sought.

The Materials sector continued to record the highest number of new market entrants in 2022, contributing 63 of the 87 listings (72%). Over the past five years, with the exception of 2019, the Materials sector has been the biggest contributor to new listings by sector. In terms of geographical spread, 46 of the Materials listings in 2022 were based in Western Australia, as it continues to be the primary location for new market entrants from this sector. A total of 63% of all listings in the year were WA-based and the state has the overall highest number of new listings over the past five years.

Industry diversification was down with only 12 sectors recording new market entrants in the year compared to 21 in 2021. Of these sectors, just seven recorded more than one entrant. After Materials, the Energy sector had seven new entrants, Diversified Financials and Software & Services both had three new listings and Capital Goods, Commercial & Professional Services and Health Care Equipment & Services had two new entrants each.

The market factors and weaker investor sentiment impacted company subscription targets. In total, 70% of listings achieved their target amount, a notable fall from 87% in 2021 and below the five-year average of 81%.

New entrants overall struggled to maintain and grow their share price in the period, despite average first day gains of 16%. At the year end, gains for many new entrants were down and, on average, listings posted a loss of 2% against IPO price. Small cap entrants managed a marginal gain of 1%, contrasting with an average year end loss for large cap listings of 33%. Only two of the nine large cap listings recorded a year end gain.

The share price performance of new market entrants has bettered the ASX All Ordinaries Index as a whole, which finished the year down 7% year-on-year. The All Ordinaries rallied from a low of 6,663 in June 2022 to finish the year at 7,222. Investors will hope the rebound continues into 2023.

The outlook for the first quarter of 2023 is consistent with the trends seen towards the end of 2022. Market uncertainty is continuing to inhibit any significant new listings coming to market, with only ten small cap entrants looking to raise an average of $8 million currently in the pipeline. The extent of any improvement in the IPO pipeline for 2023 will depend upon the reduction in the macroeconomic and geopolitical factors currently impacting the markets.

“THERE WERE 87 NEW LISTINGS IN 2022, COMPARED TO 191 IPOS IN 2021, REPRESENTING A FALL OF 54%.”

**Marcus Ohm, Partner,
Corporate & Audit Services, Perth**

2022 SNAPSHOT

87 LISTINGS

191 listings in 2021

$1.07 BILLION RAISED

$12.33 billion in 2021

16% AVERAGE DAY ONE GAIN

20% gain in 2021

78 SMALL CAPS

145 listings in 2021

72% MATERIALS LISTINGS

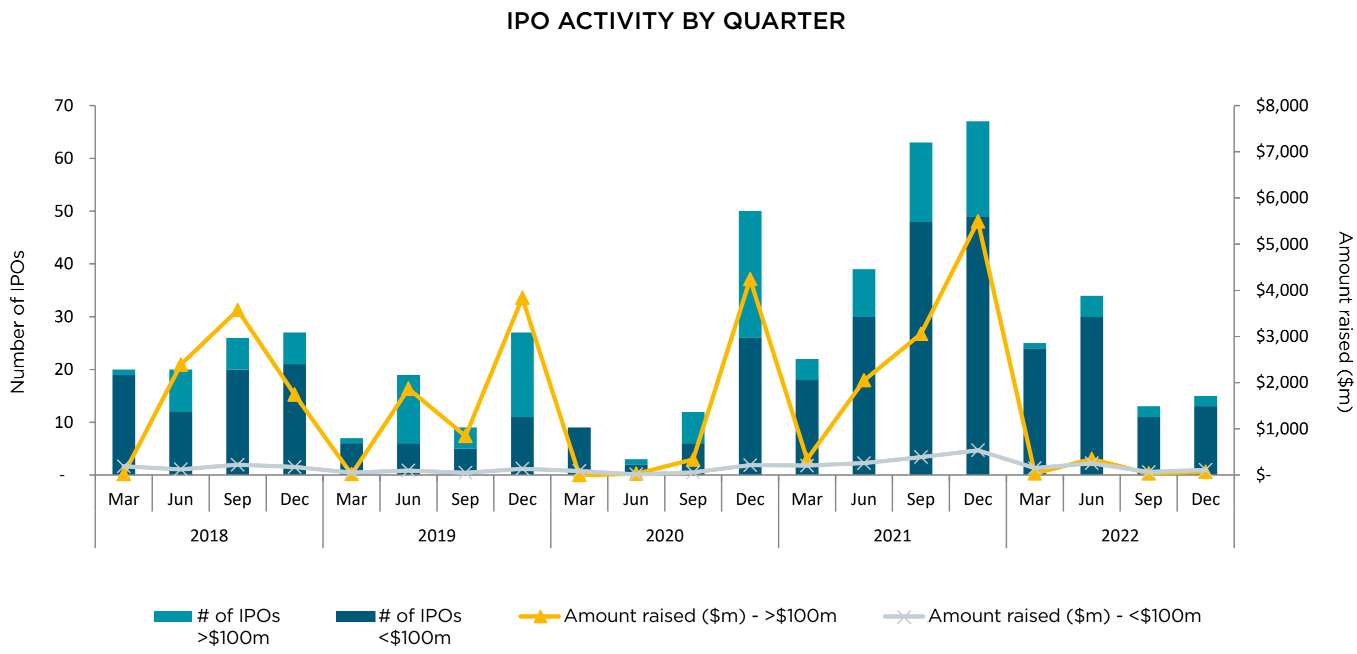
56% materials listings in 2021

-2% AVERAGE YEAR END LOSS

17% gain in 2021

IPO ACTIVITY BY QUARTER

POOR VOLUMES IN THE SECOND HALF OF 2022



Of the 87 listings during 2022, there was a considerable weighting towards the first half of the year which saw 59 listings, comparable to 2021's 61 listings. The June quarter had the highest number of new listings with a total of 34 new entrants. Activity dropped off in the third quarter with only 13 listings followed by a marginally higher fourth quarter with 15 listings.

There were nine large listings in the year. Four of these occurred in the second quarter, which consequently saw the highest amount of funds being raised. Large caps contributed $349.44 million of a total $604.38 million raised in the quarter. The largest listing of the year was also in the June quarter with Chrysos Corporation Limited (ASX: C79) raising $183.3 million, being 30% of the amounts raised in the quarter.

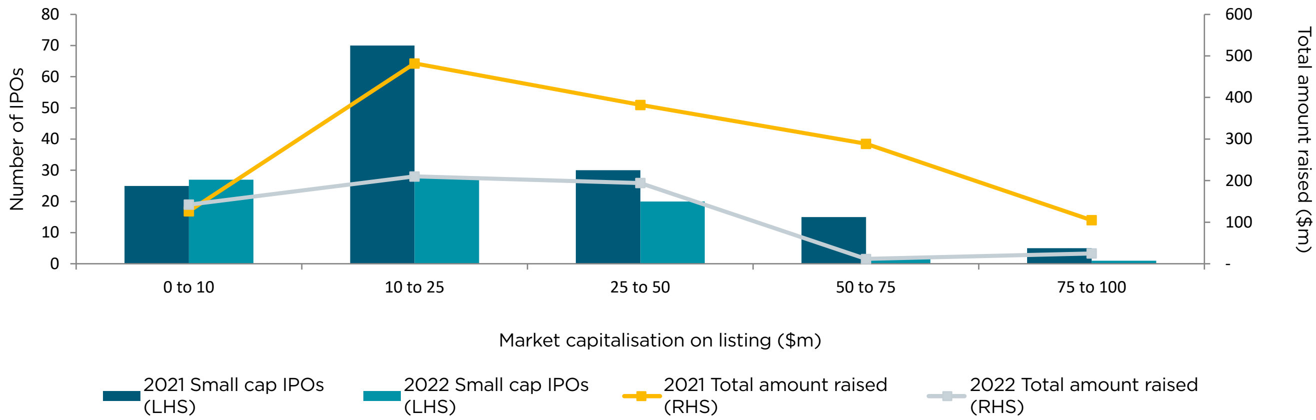
Total amounts raised by small caps exceeded the large caps in all quarters, apart from the June quarter. No other quarter raised more than $200 million, including large cap listings. The average funds raised during the year was $12.34 million. Across small cap entrants, the December quarter saw the highest average amount raised of $8.67 million, compared to the March ($6.27 million), June ($8.5 million) and September ($5.96 million) quarters.

Listings in the March quarter recorded the highest average first day gain, being 19%, though the June (+17%) and September (+16%) quarters were consistent. December listings recorded the lowest day one gain, 11% and the highest year end loss of -7%. Only listings in the March quarter managed to post a year end gain, averaging 7%.

IPOs BY MARKET CAPITALISATION

NEW LISTINGS PREDOMINANTLY SMALL CAP

NUMBER OF SMALL CAP IPOs BY MARKET CAPITALISATION



Small cap entrants made up 90% of listings in the year, an increase from 76% in 2021. The smallest market cap ranges of $0-$10 million and $10-$25 million saw the highest number of listings, with 27 and 28 listings respectively.

Companies within the $0-$10 million band raised an average of 76% of their market cap through listing, the highest proportion of any of the market cap bands. Interestingly, 26 of the 27 listings in the smallest cap band were Materials companies. The average amount raised in this category was $5.28 million, the smallest average funds raised per market cap band, followed closely by the $50-$75 million band, which raised an average of $5.84 million.

There were only two new listings in the $50-$75 million band in the year, compared to 15 in 2021. Both market entrants were in the Materials sector. The average first day gain for these listings was 49%, largely due to the standout gain of 113% by Patriot Battery Metals Inc (ASX: PMT). By year end, the band had fallen to an average year end loss of 16%, primarily due to SensOre Limited (ASX: S3N) which had a 58% year end loss.

Funds raised in each market cap band were significantly lower than the prior year, with the exception of the $0-$10 million band, which raised $142.47 million compared to $126.64 million across 25 listings in 2021.

The small cap to raise the most funds in the year was Richmond Vanadium Technology Limited (ASX: RVT), which raised $25 million. This was the sole listing in the $75-$100 million cap band in the year. Six of the ten largest small cap listings in the period were within the $25-$50 million band, the remaining three were all in the $10-$25 million band.

Large cap listings fell from 46 in 2021 to 9 in 2022. Total funds raised fell from $10.94 billion to $489.70 million in the year, representing a 96% drop. The large cap listings also suffered in terms of first day losses, on average 13%, and an average year end loss of 33%.

LARGEST SMALL CAP IPOs BY AMOUNT RAISED

Code	Company	Industry	Amount raised ($m)	Market cap ($m)
RVT	Richmond Vanadium Technology Limited	Materials	25.0	88.7
SPD	Southern Palladium Limited	Materials	19.0	44.9
OMA	Omega Oil & Gas Limited	Energy	15.1	27.8
FDR	Finder Energy Holdings Limited	Energy	15.0	31.5
MMA	Maronan Metals Limited	Materials	15.0	30.0
DRM	Demetallica Limited	Materials	15.0	23.9
NC1	Nico Resources Limited	Materials	12.0	18.2
SLS	Solstice Minerals Limited	Materials	12.0	20.0
NNL	Nordic Nickel Limited	Materials	12.0	28.8
FEG	Far East Gold Ltd	Materials	11.7	43.2

SECTOR ANALYSIS

THE MATERIALS SECTOR REMAINS DOMINANT

Materials listings dominated the market again, with 63 new market entrants in the year compared to 107 in 2021. This represents 72% of all listings, an increase from 56% in 2021. A total of 61 of the Materials listings were small cap companies. Gold and battery metals, in particular lithium, have been popular commodities for exploration listings this year. The two large cap Materials listings in the year were Leo Lithium Limited (ASX: LLL) and Atlantic Lithium Limited (ASX: A11) which raised a combined $113.3 million.

There was one new entrant in the Automobiles & Components sector in the year, the first since 2019. Adrad Holdings Limited (ASX: AHL) listed in September and achieved its subscription target amount of $22 million.

A total of 12 industry sectors saw new listings in 2022, a fall from 21 in the previous year. Notably, there were no new Retailing listings (2021: 6) or Real Estate listings (2021: 4). There was only one Pharmaceutical, Biotechnology & Life Sciences listing in the year compared to eight in 2021, with Firebrick Pharma Limited (ASX: FRE) listing in January and raising $7 million. The listing recorded a first day gain of 165%, and at year end the gain was 15%.

Software & Services listings decreased from nine in 2021 to three in the year. All three companies were small cap entrants, raising an average of $4 million. Soco Corporation Ltd (ASX: SOC) was the last listing of the year. The company recorded a first day gain of 30% and maintained the gain at year end.

Diversified Financials listings struggled during the year in terms of share price performance. All three entrants listed in the first half of the year. The average first day loss was 19%, however by year end the loss had widened to 84%. Individually, all three listings posted a year end loss of 80% or higher.

Commercial & Professional Services had two new entrants in the year. Listings in this sector had the highest average funds raised of $94.13 million, primarily due to Chrysos Corporation Limited (ASX: C79), which was the largest listing for the year. The two listings in the sector recorded an average first day loss of 36%, increasing to a year end loss of 67%.

Just three sectors managed to record year end gains. The Utilities sector, with one entrant, LGI Limited (ASX: LGI) finished the year with a gain of 20%. The other two sectors to post year end gains were the Pharmaceuticals, Biotechnology & Life Sciences sector and the Materials sector. Despite the largest number of listings per sector, Materials was the only sector with more than one listing to record an average year end gain at 10%.

TOP PERFORMING SECTORS IN 2022

Materials
63 listings
107 listings in 2021

Energy
7 listings
5 listings in 2021

Diversified Financials
3 listings
8 listings in 2021

Software & Services
3 listings
9 listings in 2021

SECTOR ANALYSIS - ALL LISTINGS VS SMALL CAP

	All Listings				Small Cap Only			
	2022		2021		2022		2021	
Industry	Number	Amount Raised ($m)	Number	Amount Raised ($m)	Number	Amount Raised ($m)	Number	Amount Raised ($m)
Automobiles & Components	1	22	-	-	-	-	-	-
Banks	-	-	2	1,158	-	-	-	-
Capital Goods	2	15	8	547	2	15	3	22
Commercial & Professional Services	2	188	8	1,092	1	5	7	110
Consumer Durables & Apparel	-	-	1	7	-	-	1	7
Consumer Services	-	-	4	936	-	-	1	17
Diversified Financials	3	76	8	1,859	1	5	4	37
Energy	7	105	5	92	6	60	4	31
Food & Staples Retailing	1	6	-	-	1	6	-	-
Food, Beverage & Tobacco	1	5	2	238	1	5	1	32
Health Care Equipment & Services	2	36	6	638	1	6	2	14
Hotels, Restaurants & Leisure	-	-	-	-	-	-	-	-
Household & Personal Products	-	-	2	25	-	-	2	25
Insurance	-	-	1	63	-	-	-	-
Investments	-	-	-	-	-	-	-	-
Materials	63	576	107	2,180	61	463	99	822
Media	-	-	2	102	-	-	1	18
Pharmaceuticals, Biotechnology & Life Sciences	1	7	8	314	1	7	5	82
Real Estate	-	-	4	2,310	-	-	-	-
Retailing	-	-	6	440	-	-	3	38
Semiconductors & Semiconductor Equipment	-	-	-	-	-	-	-	-
Software & Services	3	12	9	117	3	12	7	67
Technology Hardware & Equipment	-	-	3	84	-	-	1	8
Telecommunication Services	-	-	1	22	-	-	1	22
Transportation	-	-	3	90	-	-	2	20
Utilities	1	25	1	14	-	-	1	14
Total	**87**	**1,073**	**191**	**12,328**	**78**	**584**	**145**	**1,386**

MATERIALS LISTINGS DOMINATED THE MARKET AGAIN, WITH 63 NEW MARKET ENTRANTS IN THE YEAR COMPARED TO 107 IN 2021. THIS REPRESENTS 72% OF ALL LISTINGS, AN INCREASE FROM 56% IN 2021.

IPO SUBSCRIPTION RATES

SUBSCRIPTION RATES FALL BELOW THE FIVE-YEAR AVERAGE

New listings struggled to meet subscription targets during the year, with only 70% successfully raising the intended amount, in contrast to 87% of listings meeting their targets in 2021. Further, the percentage of companies meeting their target subscription rates fell below the five-year average of 81%.

Only five of the twelve sectors with new listings in the year achieved 100% of their subscription target. They were from the Automobiles & Components, Food & Staples Retailing, Health Care Equipment & Services, Pharmaceuticals, Biotechnology & Life Sciences and Utilities sectors. The only listing in the Food, Beverage & Tobacco sector, Catalano Seafood Limited (ASX: CSF), managed to raise 84% of its subscription target.

In the Materials sector, 70% of listings achieved their sought amount, a fall from 85% of listings in 2021.

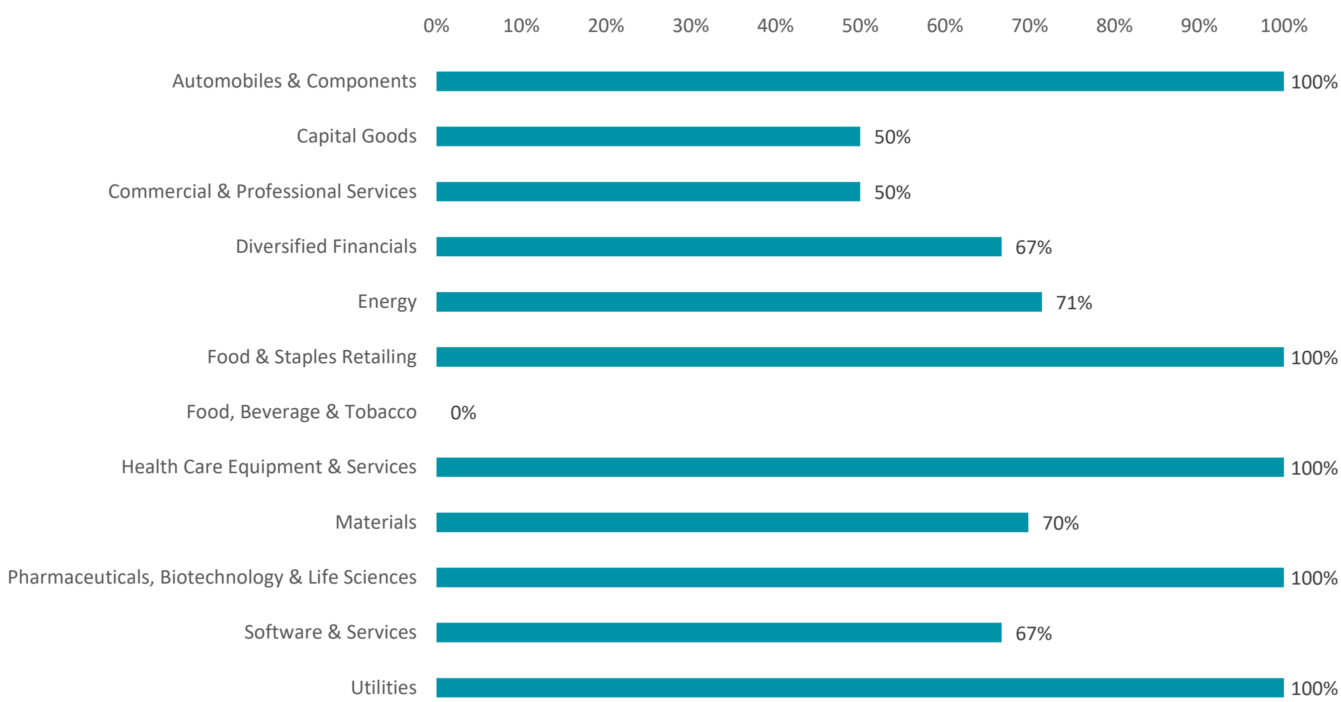
Only 8% of IPOs were underwritten in 2022, significantly less than 2021 where 27% of IPOs were underwritten. This was also well down on the five-year average of 30%.

Across all listings, 95% of the amount sought was raised, a fall from 99% in 2021.

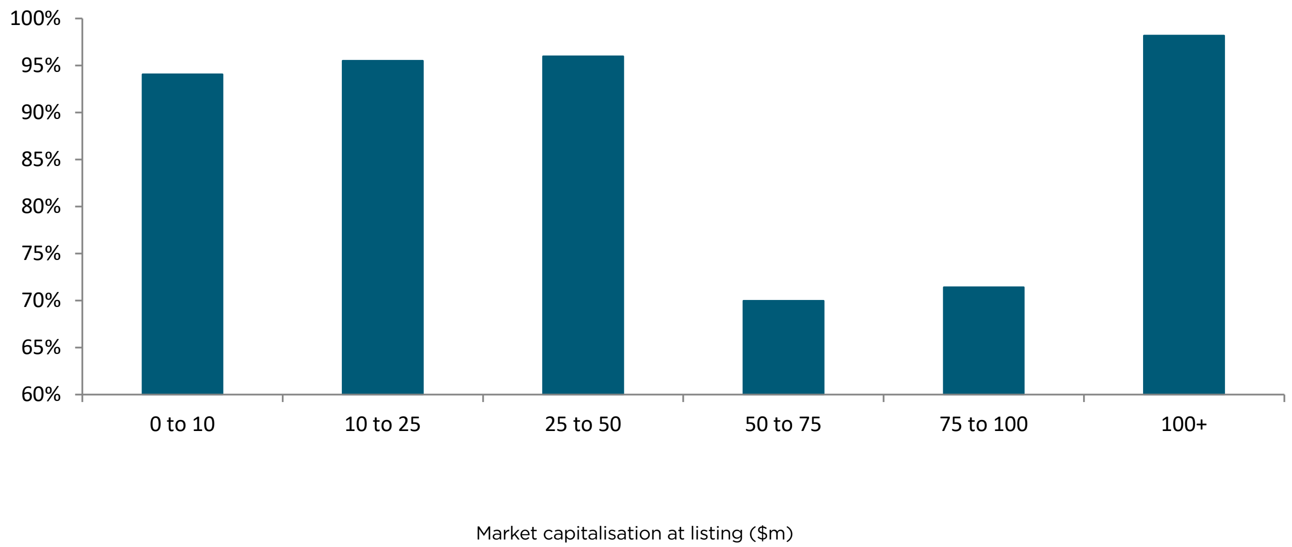
The largest market band ($100 million+) raised 98% of its subscription target, followed by the $10-$25 million and $25-$50 million bands, raising 96%. The $50-$75 million and $75-$100 million bands achieved 70% and 71% of their subscription targets respectively.

Overall, 61 listings achieved their subscription target in the year. These market entrants also posted an average first day gain of 26%, falling to a year end gain of 2%. They fared better on average than those who did not achieve their target. On average, 26 listings posted a first day loss of 5%, and this increased to an 11% loss at year end.

% OF COMPANIES ACHIEVING TARGET SUBSCRIPTION BY SECTOR



% OF SUBSCRIPTION TARGET FUNDS ACHIEVED[1]



[1] Based on the funds target being the midpoint of any allotment range (some companies do not have a range). This means actual fundraising can exceed "targeted" fundraising (i.e. oversubscription).

SECTORS WITH 100% OF COMPANIES ACHIEVING SUBSCRIPTION TARGETS

Automobiles & Components

Food & Staples Retailing

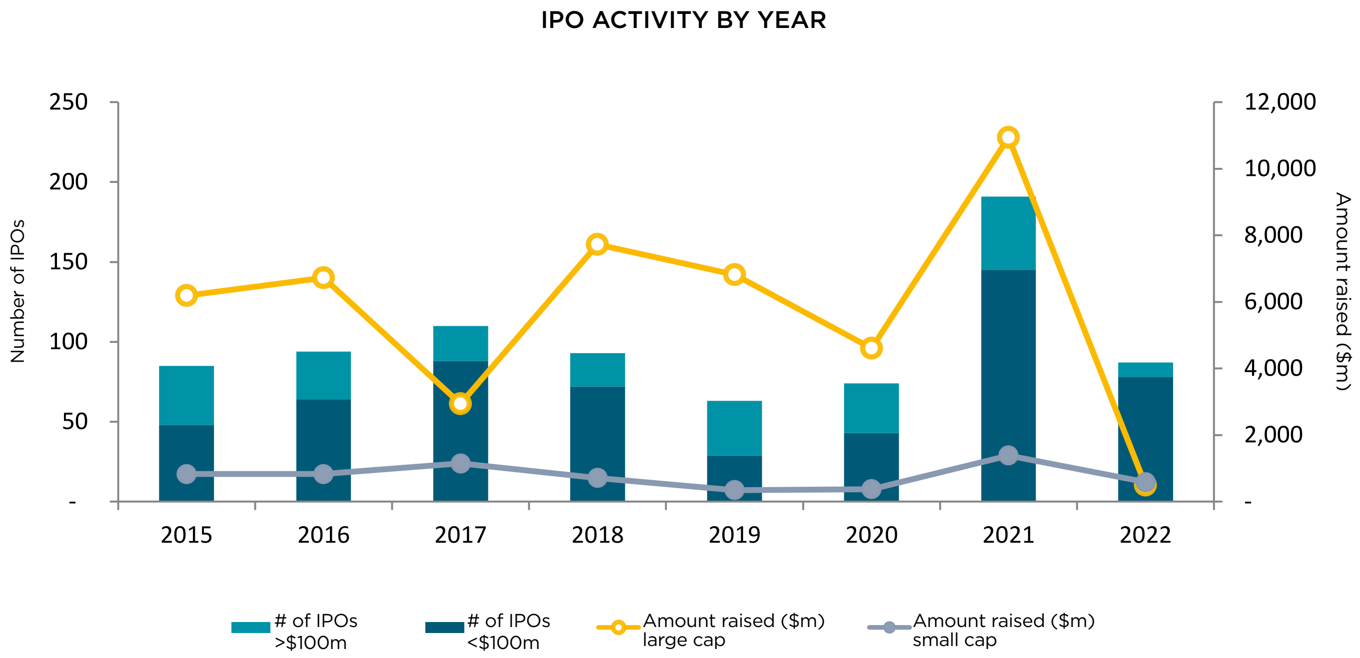
Health Care Equipment & Services

Pharmaceuticals, Biotechnology & Life Sciences

Utilities

IPO ACTIVITY BY YEAR

FALL IN VOLUMES AND FUNDS RAISED



THE ROAD AHEAD

SUBDUED ACTIVITY EXPECTED FOR EARLY 2023

The slowdown in IPO activity in the second half of the year is likely to continue into 2023, with only 10 companies having applied for listing to the ASX, at time of writing.

Nine of these companies have listed mining or mineral exploration as their principal activity, indicating 2023 is likely to once again be dominated by the Materials sector. Three of the proposed IPOs hold lithium projects and three listings have gold projects, indicating these will again be popular commodities for proposed listings in the year. Other primary projects held by companies in the pipeline include cobalt and hydrogen.

Companies are seeking to raise a combined $118.50 million, considerably lower than the $250.40 million sought at the end of 2021. On average each company is looking to raise $11.85 million.

The largest IPO in the 2023 pipeline was VHM Limited (ASX:VHM) which listed in early January, raising $30 million.

There is only one proposed IPO that is not in the Materials sector. Acusensus Limited, which designs and develops AI-enabled solutions, is planning to list in January and has a target subscription amount of $20 million.

Two out of the 10 proposed listings are underwritten. While this represents 20% of proposed IPOs, it also suggests that only a small percentage of listings will once again be underwritten in the coming year.

Bain Capital announced it is seeking advice on relisting Virgin Airlines on the ASX. If the company goes public in 2023, it will be one of the market’s biggest IPOs for some years.

SHARE PRICE PERFORMANCE

YEAR END LOSS ON AVERAGE FOR NEW LISTINGS

Share price performance fluctuated for new entrants over the course of the year with many enjoying an opening day gain followed by a decline in share price.

In total 48 companies, or 55%, posted a first day gain which was slightly less than 2021, when 60% of listings recorded a first day gain. The average first day gain across all listings was 16%, with a handful of standout gains.

Five listings recorded a first day gain of over 100%. Lithium Plus Minerals Ltd (ASX: LPM) recorded the largest first day gain in the year, 180% over issue price, highlighting strong investor sentiment in battery metals. The Materials sector had four of the top five listings. Firebrick Pharma Limited (ASX: FRE), an entrant in the Pharmaceuticals, Biotechnology & Life Sciences sector, recorded a first day gain of 165%, being the second largest first day gain in the year.

Market entrants struggled to maintain their year end share price following their first day gains, with 65 companies experiencing a fall in share price following first day trading. The largest falls were recorded by three of the five new listings that recorded first day gains over 100%. This activity reflects how quickly circumstances can change in the current market.

On average, new listings recorded a year end loss of 2%, despite a few exceptional year end results. WA1 Resources Limited (ASX: WA1) recorded a day one gain of 25%, and at year end the gain stood at 598%. Southern Cross Gold (ASX: SXG, +300%) Nico Resources Limited (ASX: NC1, +208%) and Far East Gold Limited (ASX: FEG, +140%) were the other three listings to attain a gain of over 100% at year end.

In particular, the entrants from the Diversified Financials sector struggled during the year, with all three companies posting a first day loss which increased to over 80% at year end.

62% of Materials listings recorded a first day gain, however this fell to just 35% at year end, highlighting the difficulties throughout the year for companies to maintain a stable share price. The average year end loss of all listings is slightly better than that of the ASX All Ordinaries Index, which closed down 7% year-on-year.

2022 IPO SHARE PRICE PERFORMANCE BY INDUSTRY[1]

[1]Reflects the overall gain from a notional investment of $1 in each IPO, based on the share price at 31 December 2022.

RESOURCES SECTOR ANALYSIS

RESOURCES SECTOR DOMINATES IPO MARKET

Despite a challenging backdrop of inflation fears, geopolitical unrest and market volatility which has seen the number of IPOs fall 54% compared to prior year, the resources sector was able to maintain its dominance of the IPO market in 2022. There were 70 listings from the sector, comprising 63 Materials companies and 7 Energy companies. This represented a significant proportion of the total IPO market for the year, making up 80% of all listings in 2022 (2021: 59%).

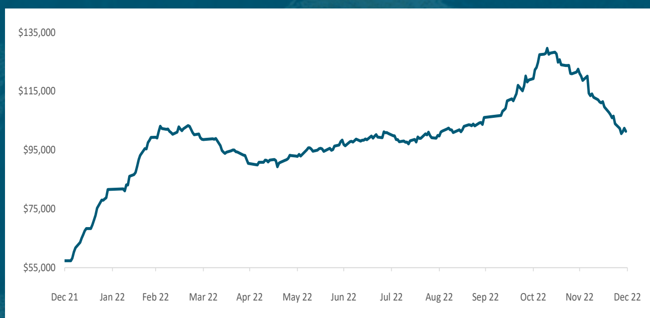
It was a year of mixed signals for the resources sector. 2022 started with strong oil and iron ore prices and a stable gold price, however growing fears that inflation would be structural rather that transitory spooked markets and there was an expectation that there would be a flight to the safety of gold. This didn't eventuate, which has surprised many, with the USD gold price falling in the middle of the year before climbing back towards the end of the year. The proportion of gold companies listing in the year fell, however it did remain the most sought after commodity of companies entering the market in the year.

There was a noticeable drop off in the number of companies completing IPOs from April onwards, as market uncertainty heightened. This affected all sectors, including resource companies. A number of companies holding projects in high-demand subsectors such as gold, lithium and other battery metals proceeded with their listings, despite the backdrop, to varying levels of success post-listing.

GOLD ($USD/T) - 2022 PRICE HISTORY

Of the resource company listings, 63 were in the materials subsector and of these, there were 11 lithium explorers, and a further 4 who listed lithium as one of the commodities under exploration. The largest resources IPO in 2022 was Leo Lithium Ltd, which listed on 23 June 2022 and raised $100 million. While there has been increased interest in lithium projects and other battery metals as focus turns to greener alternatives, gold projects remained the most sought after of materials companies in the year. Both gold and lithium IPOs have faced the same struggles maintaining share price over the course of the year with new listings focusing on gold recording a 5% loss at year end and those on lithium reporting a marginal 1% gain. This is surprising considering the publicity around battery metals and expected future demand; however it indicates any potential upside is priced into the companies at IPO, with investors cautious there might not be major gains in the future.

LITHIUM CARBONATE ($AUD/T) - 2022 PRICE HISTORY



As in previous years, Western Australia dominated the sector, with 51 of the 70 resources listings coming from the state, followed by 8 in New South Wales. Queensland had six listings, a decline from last year. Queensland's main commodity is coal and there are fewer projects focused on the current hot commodities such as lithium and other battery metals.

On top of the challenging market conditions, a major concern facing resources companies looking to list has been the cost considerations. Supply chain pressures and labour costs have resulted in projects and exploration expenditure increasing considerably since the start of 2022, which has meant that the value of capital raised in an IPO is not going nearly as far as it did two years ago.

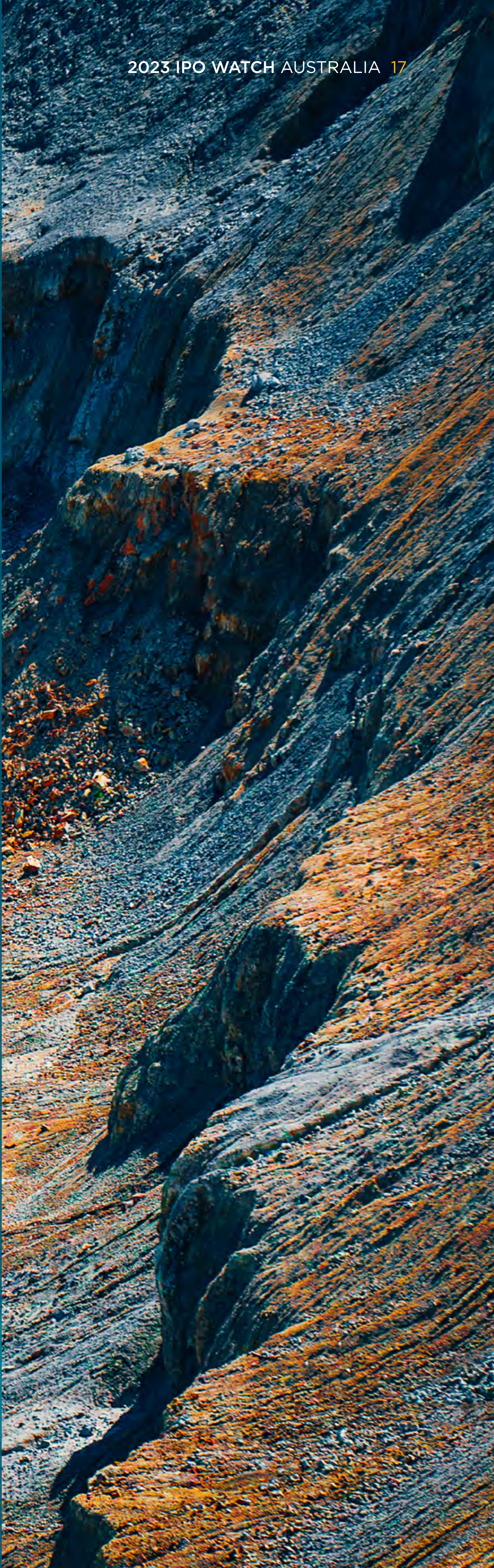
Despite the lower bang for your buck, an IPO is often the best option available to resource companies to raise capital and take a project forward. Companies exposed to the growing global demand for metals integral to the production of batteries for electric vehicles have fared relatively well. This includes metals such as graphite, nickel and copper. While these don't seem to have had their time in the sun yet, in the same way that lithium has, it is likely we will see more activity from companies in these areas over the next year or two.

Resources companies make up a substantial proportion of the pipeline of IPOs for 2023. At time of writing, there are 10 registered upcoming floats and of these, 9 are resources companies. It's likely that the difficult market and high costs experienced in 2022 have put some IPO plans on hold, however we could potentially see a number of companies who had delayed their listing plans come to market in 2023 if there are signs the market is stabilising.

A possible headwind for the resources sector is the government proposal to introduce pricing caps in the energy sector. While in the short term this can achieve certain political aims, over the longer term it reduces the incentive for companies to re-invest, and ultimately affects the stability of the market. The talk and actions in this space doesn't seem to have had an immediate impact, these markets are still running very hot and there is no sign as yet of a slowdown. However if such policies are pursued long term it is likely to have a noticeable impact on share prices of companies in the energy sector.

Overall, resource companies are approaching the year ahead with a degree of confidence as general sentiment seems to be that the market will stabilise during the year. The future for those companies exposed to the alternate energy transition looks bright, while those focused on more traditional sectors such as oil and iron ore are still in a strong position, particularly as China comes out of its strict COVID lockdowns. We expect that lithium, gold, and oil and gas will continue to be the dominant sectors in the short term, but how long this will be the case remains unclear.

Brad McVeigh
Partner
Corporate & Audit Services
Perth



CASE STUDY: LORD RESOURCES

PAVING THE PATH TO A SUCCESSFUL RELISTING

Lord Resources Limited (ASX: LRD) successfully listed on the Australian Securities Exchange on 7 April 2022, raising $4.5 million. It is a mining exploration company with several prospective projects in Western Australia, including the Horse Rocks lithium project near Mt Marion.

Its portfolio of "future-facing" metals, located within WA's greenstone belt, consists of five largely unexplored projects that offer exposure to lithium, nickel, PGE (platinum-group elements) and gold sectors.

LRD had originally been listed as Eneabba Gas before being delisted in late 2020 because it didn't have an active project. But managing director Barnaby Egerton-Warburton said the decision to rename and relist the company was a relatively straight-forward one.

"We had secured the rights to a number of exciting exploration projects and the time was ideal to go to the public market in order to raise the capital required to fund these. The growing demand for lithium provided strong impetus for an IPO, and pleasingly the listing was well-supported and generated strong interest from investors.

"Since listing, we have secured the required permits for the Horse Rocks lithium exploration project, and have now finished the initial geochemistry and surface sampling work. This has identified some very promising lithium anomalies and we anticipate starting a full drilling project next year.

"Without taking the step to become a publicly listed company, we would not have been able to secure the capital required to achieve this. Expanding our investor base has been integral to our recent successes," he said.

Mr Egerton-Warburton said that Lord Resources also benefited from a degree of good timing.

"Throughout 2022 there has been increasing demand for lithium, triggered by the growth in electric vehicle production around the world. This demand is set to continue.

"There has been a correspondingly massive jump in the number of listed lithium companies in recent years – we know this sector very well and as a result we were able to capitalise on this growing appetite."

He added that despite these advantages, undertaking an IPO was still a demanding and, at times, exhausting process.

"There is no doubt that going through an IPO can be challenging. It is a very costly and time-consuming process, with a lot of administrative hurdles, and the documentation and reporting required means that managing the IPO process is often a full-time job.

"In our case, most of the challenges we faced were external ones. We had a team that was very experienced in public listings, and we had spent a good two years preparing, so we were in a strong position. But that doesn't prevent events outside your control from cropping up."

He says the key to success was the right team, a tight capital structure with no debt, and an aligned group of shareholders.

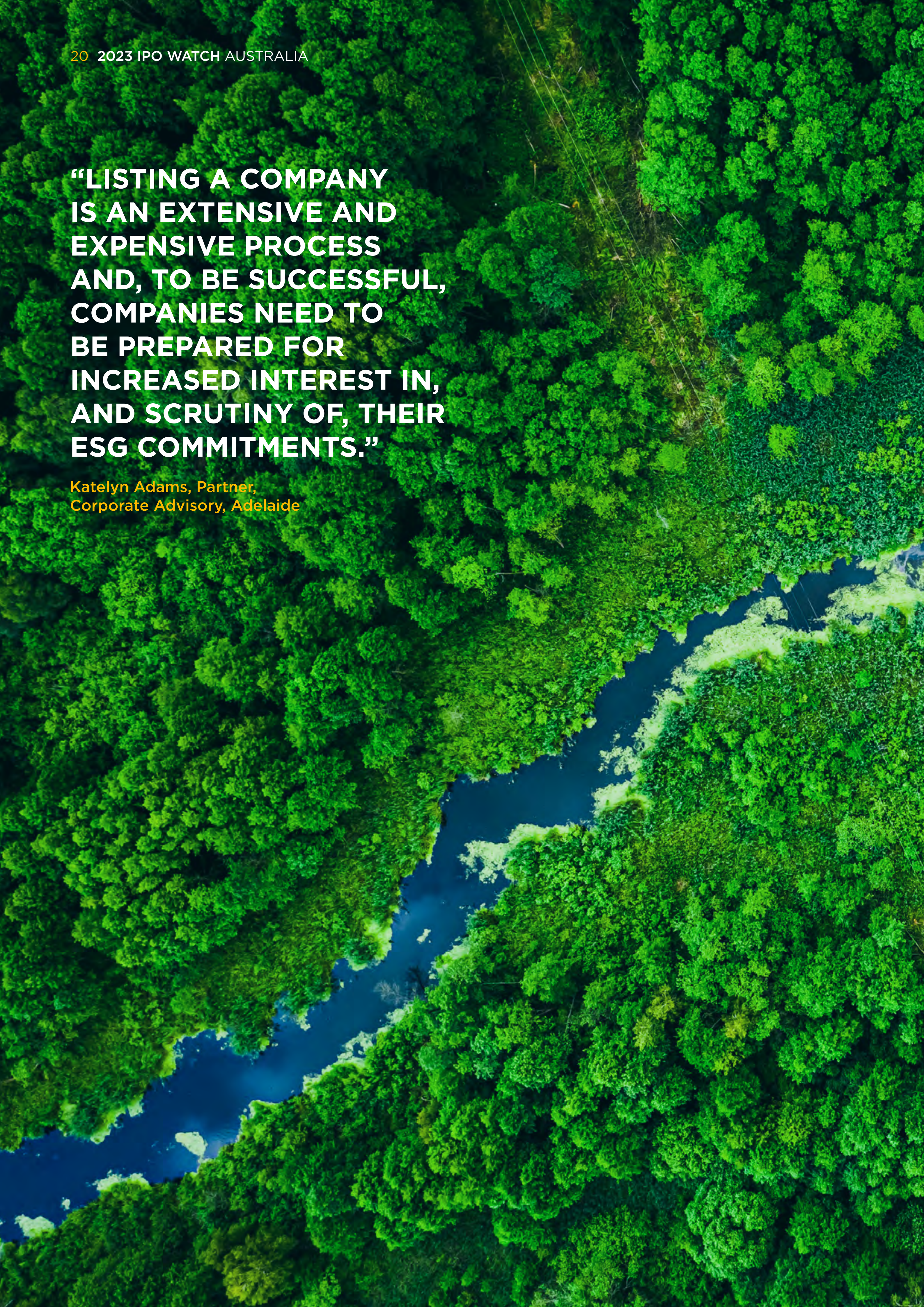
"If you have these structures set up properly from the beginning, then the process can run smoothly. Even those things that come out of left field – and the unexpected will happen – can be managed efficiently if the process is robust.

"I'd even go further and say that I wouldn't consider doing an IPO without having Lucio Di Giallonardo and his team at HLB Mann Judd in Perth involved. They have the experience and knowledge to add real value to the process. The same applies to the legal and tax advisers we used for listing Lord Resources.

"It's easy to waste a lot of money on advisers who don't really know what they're doing – having the right experience, and a team you can trust, is worth its weight in gold," Mr Egerton-Warburton said.

"I'D EVEN GO FURTHER AND SAY THAT I WOULDN'T CONSIDER DOING AN IPO WITHOUT HAVING LUCIO DI GIALLONARDO AND HIS TEAM AT HLB MANN JUDD IN PERTH INVOLVED. THEY HAVE THE EXPERIENCE AND KNOWLEDGE TO ADD REAL VALUE TO THE PROCESS."

Barnaby Egerton-Warburton,
Executive Director, Lord Resources



"LISTING A COMPANY IS AN EXTENSIVE AND EXPENSIVE PROCESS AND, TO BE SUCCESSFUL, COMPANIES NEED TO BE PREPARED FOR INCREASED INTEREST IN, AND SCRUTINY OF, THEIR ESG COMMITMENTS."

Katelyn Adams, Partner,
Corporate Advisory, Adelaide

Katelyn Adams
Partner
Corporate Advisory
Adelaide

CONSIDERING AN IPO?

NOW IS THE TIME TO CREATE AN ESG FRAMEWORK

With ESG well and truly part of the corporate vernacular, integrating Environmental, Social and Governance (ESG) strategies and metrics through an appropriate framework is increasingly critical to an effective IPO process.

Listing a company is an extensive and expensive process and, to be successful, companies need to be prepared for increased interest in, and scrutiny of, their ESG commitments.

In addition, investors are placing greater emphasis on non-financial factors as part of their analysis, investment and risk management strategies.

Therefore it is crucial that companies and their advisers include an ESG framework in the IPO checklist.

ESG frameworks are sets of guidelines that help companies manage and communicate their ESG approaches and commitments. There are a number of global frameworks a company can employ including Global Reporting Initiative (GRI), Task Force on Client-Related Financial Disclosures (TCFD) and the UN's Sustainable Development Goals (SDGs). It is important to consider a framework that aligns with the company's values, budget and structure. It also needs to provide meaningful data that can be used to enhance business value and its ESG position.

A good starting point for the framework is formulating and articulating the company's values. These values capture the beliefs and principles that drive the business and should be fully embedded into the corporate culture. Focusing on what is important to the company will help align its business strategy with its ESG objectives and commitments.

Casting an ESG lens over the IPO prospectus will help align its language and tone in the prospectus to the ESG credentials and values of the company, which then aligns with the expectations of investors.

A company that can clearly communicate its ESG objectives demonstrates a commitment to acting as a good corporate citizen. Presenting investors with an ESG framework outlines its commitment to continuous monitoring and reporting on those objectives, something investors now expect as standard from companies.

It's not just investors, customers and employees demanding strong ESG principles; the global shift towards mandatory ESG reporting and disclosure indicates that it won't be long until we see regulations requiring Australian listed entities to disclose climate-related risks. Ensuring these risks are considered at IPO-stage will only benefit the company post listing.

Engaging ESG advisers may also be beneficial during the IPO process, as well as establishing an ESG subcommittee to aid in the formulation and ongoing commitment and monitoring of the ESG framework and objectives.

Playing catch up in the ESG space will pose a financial and reputational risk, one that could be detrimental to the IPO process. A robust leadership team and a desire for transparent reporting on the key values of the company through a framework that presents guidelines for the company, will stand it in good stead for future investors and other stakeholders.

Nicholas Guest
Partner
Assurance & Advisory
Sydney

WHAT DOES THE FUTURE HOLD
FOR EMERGING TECH COMPANIES?

Against the backdrop of rising interest rates, rising inflation and geopolitical uncertainty, there was a significant decrease in the number of IPOs in the second half of 2022, notably in the technology sector.

From mid 2020 to early 2022, investors showed support for companies operating in sectors that flourished during the COVID-19 pandemic including ecommerce, pharmaceutical, food delivery, cloud technology solutions and technology services. They benefited from increased demand for products and services that could be accessed from the home or that supported remote working arrangements.

New listings in the tech sector dropped considerably in 2022, as noted in the table below.

***SOFTWARE & SERVICES LISTING ACTIVITY**

	All Listings		Small Cap Only	
Year	**Number**	**Amount Raised ($m)**	**Number**	**Amount Raised ($m)**
2019	12	1,030	4	30
2020	9	1,227	5	57
2021	9	117	7	67
2022	3	12	3	12

Source: HLB Mann Judd IPO Watch Australia Reports (2020 - 2023)

While the ASX has taken considerable steps in recent years to attract local tech IPOs, including allowing dual listings on other global exchanges, there were several macro factors impacting tech company listings on the ASX which may continue into 2023, including:

1. Global compression on the valuation of listed and unlisted tech-related businesses, following historic highs in 2021.
2. A perception of uncertainty for growth stage businesses to raise on-going capital to fund future growth and development.
3. General cyclical pressure on technology companies in times of higher inflation and interest rates.

While capital raising via an IPO may be challenging for tech companies in the near term, it remains a viable option for the future. The ASX has favourable listing rules (compared to some overseas exchanges) for pre-revenue businesses. Investors in the market also have a history of investing in yet to be proven companies as observed by the continued support of listings in the Materials sector.

For tech companies considering other options, there remains a significant amount of undeployed capital in the private markets. It can be accessed through venture capital funds, private equity, family offices or institutional funds.

In addition, we anticipate an increase in M&A activity over the next 12 months. In the current environment, a number of companies are seeking to acquire or partner with other companies rather than build. HLB Mann Judd's most recent Australian M&A Review reported that Information Technology was one of the top three sectors by the number of deals in Q1 FY2023.

Early-stage venture capital investment in Australia is supported by a number of Federal and state funded programs which encourage investment in emerging and earlier stage businesses by providing incentives and tax exemptions to investors. The programs include the Early Stage Innovation Company (ESIC), Early Stage Venture Capital Limited Partnerships

"FOR TECH COMPANIES CONSIDERING OTHER OPTIONS, THERE REMAINS A SIGNIFICANT AMOUNT OF UNDEPLOYED CAPITAL IN THE PRIVATE MARKETS."

Nicholas Guest, Partner,
Assurance & Advisory, Sydney

(ESVCLP) and Venture Capital Limited Partnership (VCLP). Typically these schemes can make available upfront tax offsets to investors, along with reducing the potential future capital gains tax that may be payable on the exit of an investment.

According to venture capital industry data released by the Australian Government, the statistics indicated that investors via these schemes have funded and supported a number of technology-backed businesses in Australia.

Australia has a maturing venture ecosystem, with an expanding array of talented and experienced entrepreneurs, professionals, programs and facilities to nurture the expansion of innovative technology businesses.

The continued local funding and support for early stage innovation companies will support a pipeline of new opportunities for future Australian IPOs.

**Analysis excludes technology-backed businesses classified under the Diversified Financials and Health Care Equipment & Services sectors*

Jude Lau
Partner
Audit & Assurance, Corporate Advisory
Melbourne

SUSTAINABILITY REPORTING
STANDARDS FOR SMALL CAPS

While there are currently no legal requirements in Australia for sustainability reporting, there are certain obligations for companies listed on the ASX to report both financial and non-financial information.

Furthermore, over the past few years it has become increasingly evident that Australian regulatory bodies are taking steps towards formalising sustainability reporting, and it is inevitable there will be more to come.

For small caps, particularly junior explorers, there are several considerations for company boards, management and their advisers to consider.

Current rules

At the moment, all companies are bound by reporting requirements set out in the ASX Listing Rules and the *Corporations Act 2001*. Current statutory financial reporting requirements seek to provide structure while promoting comparability and transparency and the laws and guidelines listed below call for some level of sustainability reporting:

- *Corporations Act 2001* and associated Regulatory Guides and other ASIC publications (i.e. INFO 203, ASIC Report 593: *Climate Risk Disclosure by Australia's Listed Companies*)
- ASX Listing Rules (i.e. continuous disclosures, periodic disclosures)
- ASX Corporate Governance Principles and Recommendations (ASX P&R)
- Australian Accounting Standards (AAS).

Under the *Corporations Act* and the ASX Listing Rules, companies are required to make continuous and periodic disclosures. Specifically, ASX Listing Rule 3.1 states that corporations are required to disclose immediately any information that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

While it can be argued that Listing Rule 3.1 is focused primarily on financial issues, it is our view that, with the increased interest in ESG commitments, the disclosures should also include information related to environmental and social matters that satisfies the materiality test.

The ASX listing rules on continuous disclosure make it clear that listed corporations have an equal duty to shareholders, investors and the market generally. It is therefore commonly accepted that there is an equal onus for disclosures of sustainability information.

Currently, the *Corporations Act* prescribes the content of the financial report, including compliance with AAS, which is currently accepted as being limited in calling for and/or setting the standards for sustainability reporting. The directors' report, specifically the operating and financial review (OFR), covers a range of general information related to the operation of the company, including its principal activities and outcomes during the year, as well as some forward-looking information. The OFR is governed by Regulatory Guide (RG) 247, which provides guidance for directors of listed entities on providing useful and meaningful information to investors in an OFR.

In 2019, ASIC amended RG 247 to recognise that climate change can have material impact on a company's future financial position, performance or prospects. More importantly, ASIC identified climate change as a systemic risk that could impact an entity's financial prospects for future years, and that

may need to be disclosed in the OFR of the directors' report. More recently, in late November 2022, ASIC published further guidance for company directors to ensure material business risks, including climate related risks, are adequately disclosed in annual reports to better inform shareholders and prospective investors.

In its December 2022 publications (22-333 MR *ASIC highlights focus areas for 31 December 2022 reporting*), ASIC again drew attention to the impacts of climate change and related events, and the commitments and policies on climate and carbon emissions by governments in assessing the value of a company's assets and provisions, and business strategies. It also reminded companies to ensure their OFR disclosures adequately address the issue of climate change risk and its associated impact on the future prospects of entities.

This is a timely reminder to small caps and junior explorers to adequately outline and communicate their sustainability commitments.

In the context of the ASX P&R, we are of the view that three of the nine principles are relevant to the disclosure of sustainability information and ought to be adequately addressed by junior explorers. They are:

- *Principle 3: Instil a culture of acting lawfully, ethically and responsibly* – in the context of sustainability reporting, publicly listed entities are expected to establish a code of conduct to actively promote ethical and responsible decision-making;
- *Principle 4: Safeguard the integrity of corporate reports* – increasingly, investors are relying on a broader range of periodic corporate reports other than audited or reviewed financial reports (i.e. sustainability reports) to inform their investment decisions; and
- *Principle 7: Recognise and manage risk* - in the context of sustainability reporting, it is expected that publicly listed entities establish a sound system of risk oversight and management and internal control designed to identify, assess, monitor and manage risk, and inform investors of material changes to the company's risk profile (applicable to climate risk given its designation as a systemic risk by ASIC).

The way forward

In June 2022, the Australian Accounting Standards Board (AASB) released its project insights - *Developing sustainability-related financial reporting standards in Australia* - with the aim of setting out a snapshot of the proposed approach to developing sustainability-related financial reporting standard, as well as the key elements associated with the proposed approach.

It is evident the AASB is seeking to develop a separate suite of standards that specifically address sustainability-related financial disclosures made as a part of general-purpose financial reporting and prioritise international alignment. There will however be modifications for Australian matters and requirements when necessary to meet the needs of Australian stakeholders.

Given the ongoing importance of sustainability reporting in the ESG realm, we await the next phase of work to be delivered by the AASB as well as other federal regulatory bodies. In order to prepare, small caps should consider sustainability in their reporting, regardless of the current laws.

This is a timely reminder for all business to recognise that ESG is wide ranging and goes beyond having a checklist. It is important companies live and practice ESG fundamentals through its values and culture. This approach will ensure that the company will conduct itself in a manner that is consistent as well as meeting expectations of its stakeholders and the broader community.

PAST TRANSACTIONS

HLB MANN JUDD IS PROUD TO HAVE ASSISTED IN THE FOLLOWING TRANSACTIONS IN THE PAST 12 MONTHS

ABOUT HLB MANN JUDD

AWARD-WINNING CLIENT SERVICE

The HLB Mann Judd Australasian Association consists of nine member firms and three representative firms across Australia, New Zealand and Fiji. It represents a group of specialists providing business advice and services to a wide range of business organisations and private clients.

Our experience

HLB Mann Judd's member firms currently audit over 6% of all ASX-listed companies and 10% of all ASX-listed resources companies in Australia. In addition to audit-related services, it also provides a broad range of advisory and tax services.

IPO readiness

HLB Mann Judd firms have extensive experience in assisting clients in their preparation for an IPO and in evaluating the benefits and feasibility of an IPO against alternative strategic options. Our assistance to companies pursuing an IPO typically includes:

- Independent limited assurance reports on historical and forecast financial information
- Analysis and advice on feasibility and alternatives to an IPO
- Pre-IPO diagnostic reviews
- Corporate and structuring advice
- Financial and taxation due diligence
- Valuations
- Company and shareholder tax advice and planning
- Accounting advice.

Global reach

HLB Mann Judd is a member of HLB International, the global advisory and accounting network. HLB has a history of innovation, collaboration and is dedicated to helping clients grow across borders. Through the power of more than 38,732 professionals across 157 countries, HLB combines local expertise and global capabilities to service clients' needs.

CONTACT

FOR SPECIALIST ADVICE CONTACT OUR AUDIT AND CORPORATE ADVISORY PARTNERS

MARCUS OHM
Perth
T: +61 (0)8 9267 3225
E: mohm@hlbwa.com.au

JUDE LAU
Melbourne
T: +61 (0)3 9606 3888
E: jlau@hlbvic.com.au

NICHOLAS GUEST
Sydney
T: +61 (0)2 9020 4000
E: nguest@hlbnsw.com.au

BEN FOCK
Wollongong
T: +61 (0)2 4254 6500
E: bfock@hlbw.com.au

COREY MCGOWAN
Adelaide
T: +61 (0)8 8133 5030
E: cmcgowan@hlbsa.com.au

JAMES HENDERSON
Brisbane
T: +61 (0)7 3001 8800
E: jhenderson@hlbqld.com.au

MEMBER FIRMS

ADELAIDE
169 Fullarton Road
Dulwich SA 5065
T: +61 (0)8 8133 5000

AUCKLAND
Level 8, 57 Symonds Street
Auckland 1010 New Zealand
T: +64 (0)9 303 2243

BRISBANE
Level 15, 66 Eagle Street
Brisbane QLD 4000
T: +61 (0)7 3001 8800

FIJI
Top Floor, HLB House
3 Cruickshank Road
Nadi Airport, Fiji
T: + 679 670 2430

MELBOURNE
Level 9, 550 Bourke Street
Melbourne VIC 3000
T: +61 (0)3 9606 3888

PERTH
Level 4, 130 Stirling Street
Perth WA 6000
T: +61 (0)8 9227 7500

PERTH INSOLVENCY WA
Level 3, 35 Outram Street
West Perth WA 6005
T: +61 (0)8 9215 7900

SYDNEY
Level 5, 10 Shelley Street,
Sydney NSW 2000
T: +61 (0)2 9020 4000

WOLLONGONG
65 Kembla Street
Wollongong NSW 2500
T: +61 (0)2 4254 6500

REPRESENTATIVE FIRMS

HOBART / Lorkin Delpero Harris
31 Davey Street
Hobart TAS 7000
T: +61 (0)3 6224 4844

LISMORE / Thomas Noble and Russell
31 Keen Street
Lismore NSW 2480
T: +61 (0)2 6626 3000

NEWCASTLE / Cutcher & Neale
130 Parry Street
Newcastle West NSW 2302
T: +61 (0)2 4928 8500

hlb.com.au

HLB MANN JUDD
ADVISORY AND ACCOUNTING

hlb.com.au

TOGETHER WE MAKE IT HAPPEN