Global tech companies eye ASX amid pandemic

Aleks Vickovich *Wealth editor*

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Up to 25 per cent of companies in the Australian Securities Exchange's listings pipeline are from the technology sector, including New Zealand, US and Israeli firms readying for an initial public offering down under.

While the local sharemarket operator does not disclose the identity of specific companies preparing for an ASX float, it is encouraged by the buoyant demand it is seeing from quality technology companies around the world despite the pandemic.

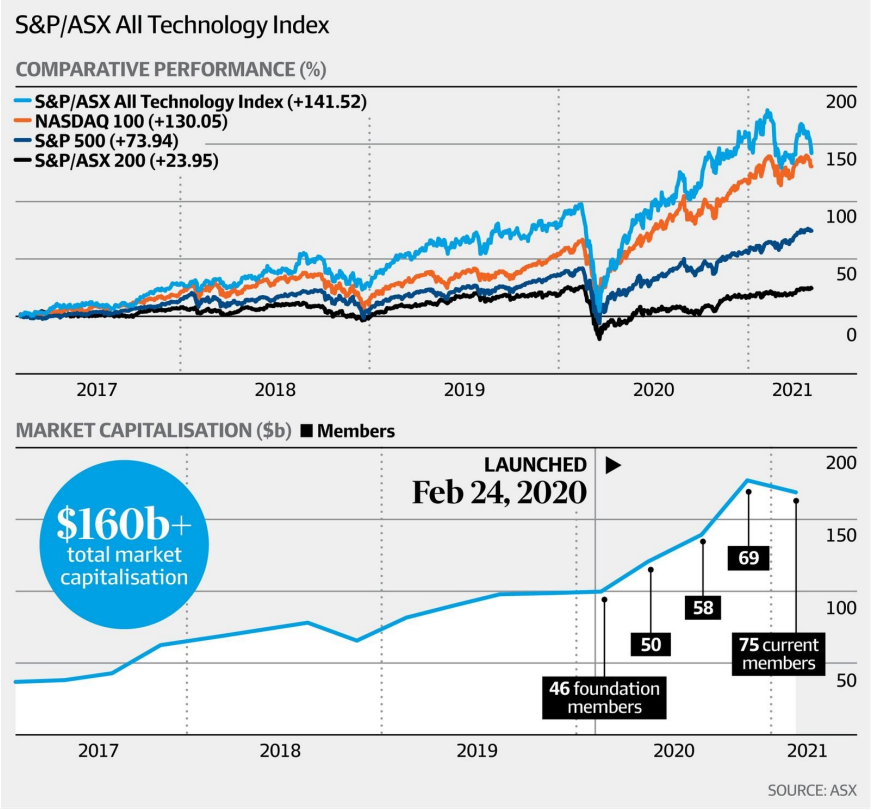
"We have a very good IPO pipeline out to June," Max Cunningham, executive general manager of listings at the ASX, told *The Australian Financial Review*.

Max Cunningham says the pipeline for tech IPOs is solid. **Anthony Johnson**

"The make-up of that is solidly tech," he added, estimating that between 15 and 25 per cent of the list hails from the sought-after sector.

The fintech and healthcare-tech sub-sectors are well-represented, alongside select software-as-a-service (SaaS) and consumer technology providers, Cunningham said.
The *Financial Review*'s Street Talk column has revealed the identities of some likely ASX hopefuls, including green commodities trading platform Xpansiv, and Israeli insurance tech provider Gefen.

The coronavirus-induced lockdowns had made attracting new listings from abroad more of a "challenge", Cunningham conceded, with valuable investor conferences in San Francisco and Tel Aviv cancelled or restricted to locals.



Nonetheless, the former investment banker said he was "happy" with the geographic diversity in the pipeline, confirming that companies domiciled in Israel, as well as the US and New Zealand (where the ASX has a permanent office), appear on the secretive list.

The estimate is broadly in line with the ratio of tech companies as a proportion of ASX listings over the past four or five years, as the market operator has scoured the globe for companies that could add critical tech exposure to the bourse.

"The number of tech companies coming to market for the past five years hasn't changed that much. What's changed in the last five years is the tech companies each year that are coming are bigger," he said. "The average tech company that is listing today is much bigger than it was five years ago."

About a third of companies keen on listing on the Australian sharemarket are now temporarily knocked back until they have the sufficient scale and experience.

Scarred by a number of "premature IPOs" when it kick-started its big tech push half a decade ago, the ASX has since raised the bar, beefing up the minimum revenue and escrow requirements to list on the exchange.

"The best thing retail investors can have, and the best thing institutional investors can have, and the banking community, is more successful tech IPOs," Cunningham said. "And the best way we can do that is to have them become the market at the right time."

'Periodically over-optimistic'

But according to RMIT University senior finance lecturer Angel Zhong, the higher barriers to entry have not eliminated the risk that tech companies may under-perform once floated.

In practice, many retail investors are priced out or blocked from participating in IPOs. With limited stock available, investment is often restricted to select groups of investors, usually those who are clients of or are connected to the stockbroking firms and investment banks working on the deal.

That means that most retail investors following an IPO will instead be buying stock shortly after the listing.

"Tech stocks have been the market darling in recent months," Zhong said. "Influenced by media coverage of tech stocks and the large and rapid price surge in tech stocks, investors flock into the market to hunt for newly listed tech stocks to grasp any possibility to gain juicy returns."

S&P/ASX All Technology Index

TOP 10 BY MARKET CAP (Mar 2021)	
1	Afterpay
2	REA Group
3	Xero
4	Seek
5	Wisetech Global
6	Computershare
7	NEXTDC
8	Pro Medicus
9	Carsales
10	Altium

MEMBERS BY COUNTRY OF ORIGIN	
Australia	58
NZ	5
US	5
Ireland	2
Israel	2
Malaysia	1
Germany	1
Singapore	1

SOURCE: ASX

She gives the example of gig economy marketplace Airtasker, which listed on the ASX in March. While its shares have been trading well above the IPO price of 65¢, they have remained well below the peak of $1.75 per share reached in a frenzied rally immediately after listing.

Zhong's research has concluded that IPOs tend to be underpriced in the short term and especially in a "hot market" like the current one.

"That means investors oversubscribe to IPOs and heavily buy newly listed stocks in the short period after official listing," she said. "That's why we can see the high trading volume in Airtasker on the first few days."

She observed the same behaviour following the April listing of Brisbane-based online lender Propell.

"Investors are periodically overoptimistic about the growth potential of young tech companies," Zhong said. "For investors who are enthusiastic about tech IPOs, given the hot market right now, their short-term gains are more likely. But that also means long-run underperformance will also be more likely."

Smart investors may be able to pick winners, she said, but there is a higher likelihood they will pick one that

will underperform.

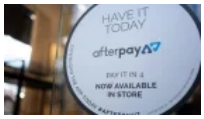
Stock-picking in any sector is fraught with risk, says BetaShares managing director Alex Vynokur. **Dominic Lorrimer**

For Alex Vynokur, managing director of fund manager BetaShares, IPO investing is an example of the inherent risks of trying to pick winners.

"Stock-picking is a high-risk approach in any sector, and perhaps especially so in the technology sector, where individual companies may exhibit higher levels of volatility," he said. "Our view is that investors interested in Australian technology may be better served by a diversified exposure to the sector."

BetaShares last year launched the first exchange-traded fund to track the new S&P/ASX All Technology Index. The fund, known as ATEC, has since accumulated over $200 million in funds under management, indicating the strong demand from investors for Australian tech exposure.

"It has delivered strong performance since inception in March 2020, reflecting that of the Australian tech sector," Vynokur said.



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Like the ASX's IPO pipeline over the coming months, Cunningham is proud that the index features a combination of Australian innovators as well as those as far-flung as Ireland or Israel.

From an initial universe of 46 companies when the index was established early last year, there are now 75, of which 58 are Australian and the rest from around the world.

The index has been rebalanced five times and its underlying companies have a combined market capitalisation of $160 billion.

As for the issue of underperforming post-IPO stocks, Cunningham said the ASX is doing its part to ensure only quality companies are coming to market.

But at the same time, he urged investors to read and understand the prospectus and subsequent disclosures, do the research or get advice.

"There has to be a little bit of accountability and responsibility," he said.

Aleks Vickovich is the wealth editor. He writes about financial advice, funds management, banking and regulation, with a special interest in the next generation of investors. *Connect with Aleks on Twitter. Email Aleks at aleks.vickovich@afr.com*