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“Capital-rich investors create a good base for IPOs”

Interview with Valeria Ceccarelli, Head Primary Markets, SIX

In an interview with GoingPublic Magazine, Valeria Ceccarelli underlines, among other things, the international reputation of the Swiss Capital Market and how the stock exchange is equipped for digitization.



Photo: © SIX

GoingPublic: Mrs. Ceccarelli, the trading of Swiss shares on venues within the EU was stopped a few weeks ago. How does this affect the Swiss Capital Market?

Ceccarelli: On the first of July of this year, the ordinance adopted by the Swiss Federal Council to safeguard and strengthen a vibrant Swiss Capital Market became operational. The transition of EU trading volumes of Swiss equities onto SIX, after EU-equivalence was no longer granted, went absolutely smoothly. But regaining EU recognition of equivalence, for which Switzerland's exchange regulation fully meets all specifications, remains our top priority. Effective open markets and legal certainty continue to be of utmost importance for SIX in order to be able to serve best

the interests of issuers, banks and investors.

What highlights has the Swiss IPO market seen in 2019? With Stadler Rail, for example, at least one larger-scale IPO has taken place in Switzerland this year ...

Regarding the IPO market this year, activities rebounded in the second quarter after a particularly weak first quarter; overall, the first half of the year was generally down in Europe compared to the same period last year. We as SIX are looking back on a very strong second quarter 2019. In fact, our first IPO this year, Medacta, was also the first sizeable European floatation of 2019.

Furthermore, we have observed a mixture of transactions, like the Novartis-

spinoff of Alcon – a dual listing in Switzerland and the US – or the IPO of the packaging company Aluflexpack. You have already mentioned the IPO of Stadler Rail, so far one of the biggest European IPOs this year. We have seen a good mix of sizes and sectors. Year to date, the overall IPO transaction volume on our market is CHF 2.3 bn. This is very good news for us, since in the first half of the year we are ranked number two in Europe by IPO transaction volume, after the LSE group (London Stock Exchange and Borsa Italiana).

How is the IPO outlook for the rest of the year?



ABOUT THE INTERVIEWEE

Valeria Ceccarelli is Head of Primary Markets at **SIX**, in the Securities and Exchanges business unit. In this function, she is responsible for the origination of new listings (initial public offerings and bonds) as well as for the relationship management with the listed companies. Valeria has over twenty years of experience in the financial sector. Before joining SIX, she worked for about twelve years in the Investment Banking division of Morgan Stanley in London and Milan, where she was an executive director.

The key ingredients for a strong IPO environment are good equity market valuations, positive and sustainable market performances and low volatility; geopolitical tensions, major changes in trade policies or central bank policies create uncertainty and therefore volatility. In addition, encouraging economics supports a good equity market environment. Such factors or its perception can quickly change; therefore, it is difficult to provide a precise outlook. On the other hand, there are always companies in different stages considering going public. We remain confident that the IPO pipeline will be well filled in the months to come.

Where do you think lies the greatest potential of the Swiss capital market, particularly as seen from an international perspective?

We are a large stock exchange, number four in Europe by free-float market capitalization of listed companies, and Switzerland is an attractive location as a finance center. The market cap of our listed companies is larger than you would expect with our country being relatively small in size – this illustrates how strong the Swiss capital market is.

The capital-rich domestic and international investor base – in conjunction with the high placement power of the banks – creates a good foundation for IPOs. Participants of the Swiss market are used to dealing with global businesses and cross-border aspects.

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We are a large stock exchange, number four in Europe by free-float market capitalization of listed companies.

In addition, SIX is known for its fast, efficient and market-oriented listing process. This gives us a good and competitive position within global stock markets.

And where do you see – or expect to see – further room for improvement with respect to the Swiss capital market?

Next year, Switzerland intends to introduce a new prospectus regime largely modeled along the EU prospectus regulation. I believe that the new framework should, as intended, enhance transparency and legal certainty for issuers while retaining a certain degree of flexibility.

There are a number of other law-related changes being discussed that can bring further improvements to the already competitive Swiss capital market. On the Swiss withholding tax, the Federal Council recently approved the key objectives and the key figures for a withholding tax reform that would strengthen the Swiss debt capital markets. The stock corporation law revision, recently discussed by

the Swiss Council of States, should modernize and introduce greater flexibility to Swiss stock corporation law in several areas as well.

Why do small and mid-sized companies in particular seem reluctant to head for the stock exchange?

Going public is a resource-intensive process that can represent a greater challenge for smaller companies. In addition, the challenge of trading liquidity can potentially cause underpricing of IPO and drive up cost of capital. Nevertheless, SMEs are very important for the economy and for the Swiss capital market. Many people suppose that the Swiss stock exchange only consists of blue chips, since three out of the five biggest companies in Europe – according to market capitalisation – are listed with us. But it is a fact that we have listed about one hundred companies with a market cap between CHF 100 m and below CHF 1 bn. SMEs can successfully access the capital market, and our listing requirements are suitable for small caps and mid caps as well. To mention just one recent case, Afluflexpack’s IPO in June this year is a good example of a successful SME-listing at SIX.

We are aware that SMEs face additional challenges, and we are addressing, among other things, the trading liquidity or the new and increased regulation causing limited analyst coverage. In 2016, SIX launched its Stage Program, which aims to increase the visibility of smaller companies to relevant stakeholders in the

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capital market. (Editorial note: GoingPublic Magazine reported on this.) Participating companies can benefit from a regularly updated factsheet and research reports prepared by experienced partners, in addition to other services provided by SIX.

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Being public provides companies with the repeat opportunity to raise additional capital efficiently.

Good cue – how satisfied are you with Stage so far?

We are definitely satisfied with the Stage Program; it is actually quite unique. Today, 14 companies are taking part in the program, and the feedback received by issuers and by other market participants has been consistently positive.

In times of increasing digitization, what role will traditional financing, e.g. IPOs, play?

It is a general trend that companies now have more possibilities when it comes to accessing capital. More private capital is available, e.g. private equity, family offices, etc., and new digital issuing venues, e.g. crowdfunding platforms, provide alternative ways to raise capital and delay the desire and need to access public capital markets. Nevertheless,

companies continue to access the IPOs markets for various reasons.

Being public provides companies with the repeat opportunity to raise additional capital efficiently. A listed company's stocks also give companies a liquid currency that can be used to fund inorganic growth. Going public creates publicity that can strengthen brand awareness and secure higher visibility. Public companies are often seen as being more open; consequently, they enjoy greater public credibility also among their customers and suppliers.

Therefore I think that IPOs will continue to be a relevant financing option for companies. Various financing means will coexist and address different needs, and stock exchanges will maintain their role. The technology on which exchanges are based is likely to be different in the future; however, from my point of view, the functions they fulfill will still be there and they will remain one of the important venues where companies raise capital.

Will there, at some point in the future, be no stock exchanges or banks, but only digital platforms, similar to crowdfunding?

I believe that the future will bring about more change and that new platforms and digitalization will continue to evolve. Let me reiterate, however, that I believe that exchanges will still exist in the future. And not only because they connect providers and users of capital but also because they are efficient trading venues where securities can be bought and sold at any time and because an exchange has rules and regulations based on the principles of fairness and transparency that protect investors and listed companies alike.

As far as technology is concerned, we as SIX are adapting to the digital developments, and we always strive to be on the forefront. Wherever the market will go – we'll be there.

Mrs. Ceccarelli, many thanks for the discussion.

The interview was conducted by Svenja Liebig.