

Nordic stock market 2020-2021

Which industries do you think outperform others during the COVID-19 crisis?

Summary

We studied the relative share price performance to understand the impact of COVID-19 by analysing 136 nordic public companies.

The aim of study was to compare:

- the relative industry performance
- the development of the initial public offerings (IPO) market

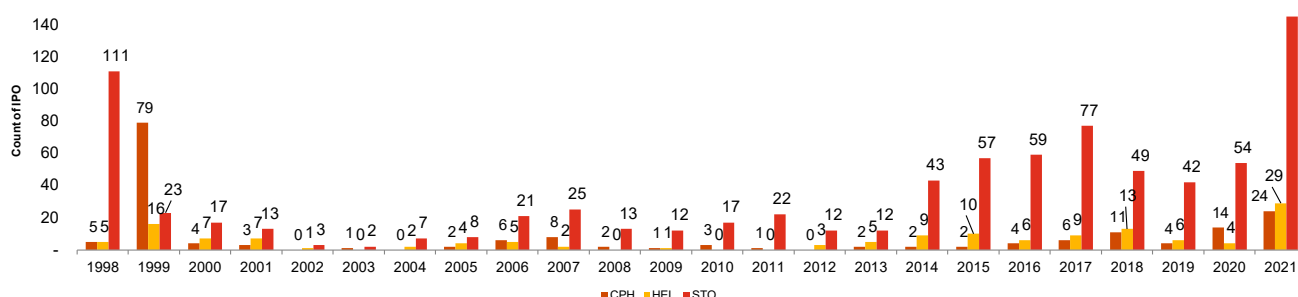
The industry groupings that we used are the same as in our Valuation Corner¹ and we calculated the performance of each company starting from 31 December 2019, before the nordic markets (and the whole world) was affected by the pandemic.

From the onset of the COVID-19 outbreak, almost all industries experienced a sharp price decline. This trend especially worsened in March 2020, when COVID-19 was declared

to be a global pandemic, causing the global economic uncertainty to peak. After the uncertainty and carnage of the first few months, markets started on a growth trend that is still persisting.

Coupled with that share price trend, we observed a historic boom in the nordic IPO count. For the first time, across all the nordic exchanges, the number of IPOs in 2021 surpassed the levels during the tech bubble years of 1998 to 2000. This record year of 2021 is initially unexpected in the earlier days of the COVID-19 pandemic due to many uncertainties in the equity market and pessimistic prospects of businesses. This study will lend observations on share price performance across various industries in support for companies considering an IPO in the near future.

The development of IPO activity in the last 20 years



¹ <https://www.pwc.fi/en/services/deals/valuations/valuation-corner.html>

High valuations: Markets recovered quickly to levels higher than pre-COVID

Over the two years of the pandemic, the Finnish and other Nordic markets generally performed well, with differences across industry sectors.

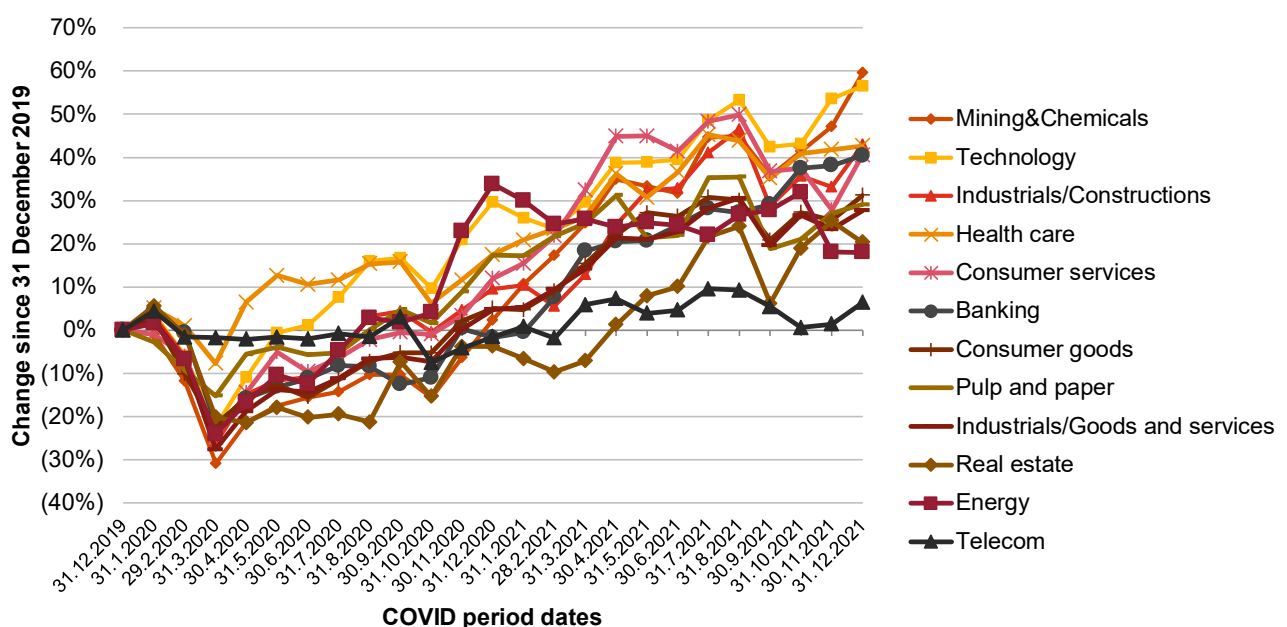
On 31st December 2019, COVID-19 was first reported and the market reacted negatively with a 30% fall across many industries by March 2020. Telecom and healthcare was mildly affected compared to other industries. It was negatively impacted nevertheless.

The road to recovery for most industries however were relatively quick, especially with healthcare and technology industry. Within 2 months, the healthcare and technology companies were able to recover to pre-COVID levels followed by other industries within the

next 6 months. For the technology industry, the growth narrative, together with the positive impact from social restrictions and online traffic have supported higher valuation. For the health-care industry, we will further explain the trend below.

At the end of the 2 year COVID period, health care and technology have seen large gains (approximately 1.6x valuation of pre-COVID). Similar trends can be seen in other stock markets. The S&P 500 index has a large focus on technology and health care companies (together making up over 40% of the weighting currently) and the S&P 500 index has outperformed the FTSE 250 index, where technology and health care have a total weight of less than 10%.

Nordic stock market recovery during COVID-19 pandemic



Investors usually pay close attention to the equity story and valuation in an IPO. In the valuation process, one would take a group of comparable peer public companies to benchmark the price range. At the beginning of the pandemic, the initial reaction was to proceed with caution, and many postponed their IPO event. However, as the market

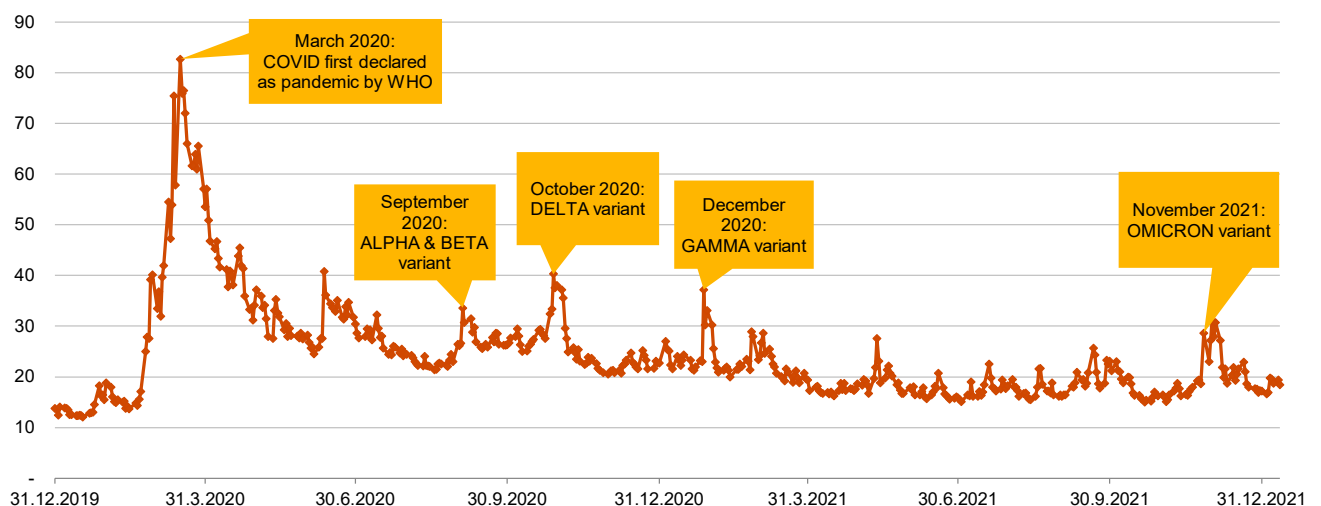
participants became more familiar with the nature of the pandemic, together with cheap capital and successful vaccination strategies worldwide, market optimism returned to the stock market in 2021. To an opportunistic investor, this positive IPO sentiment indicates a suitable time and valuation environment to performing an IPO in the near term.

Improving volatility: Subsequent waves of COVID mutations do not drastically swing the market

After March 2020 – when COVID first declared as pandemic, there has not been a significant increase in volatility (measured by VIX index) even with the appearance of subsequent COVID variants. Although all the variants show a spike in the equity market volatility, we see rapid recovery to stable and low volatility levels very shortly after. The first instance of COVID took half a year to revert to lower level. The subsequent effects due to variants disappeared relatively quickly, given the better coordination responses from

governments, financial institutions, and businesses. Market participants are less surprised with new variants and are relatively prepared to face the cycles of new variants. This is the main reason for which many previously planned 2020 IPOs were executed in the year 2021 instead – investors were much more confident in navigating and assessing IPOs even amidst the COVID-19 situation, therefore companies need not be too worried about the precise timing of the IPO during COVID times.

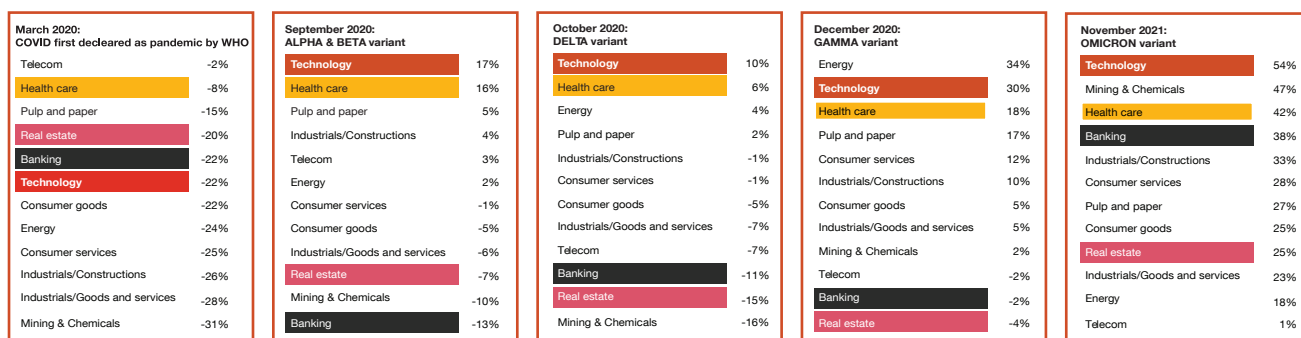
CBOE Volatility S&P 500 Index VIX



Healthcare industry: Strong fundamentals independent of COVID situation

You would expect healthcare to do well in a pandemic. You would also be broadly right. The average share price impact of the healthcare industry was overall relatively immune compared to the average of all industries. Although the average share price

plunged in March 2020 (-20%), the healthcare industry was able to recover quickly and maintain its strong growth throughout the period. The average share price has only soared positively ever since the first COVID announcement.

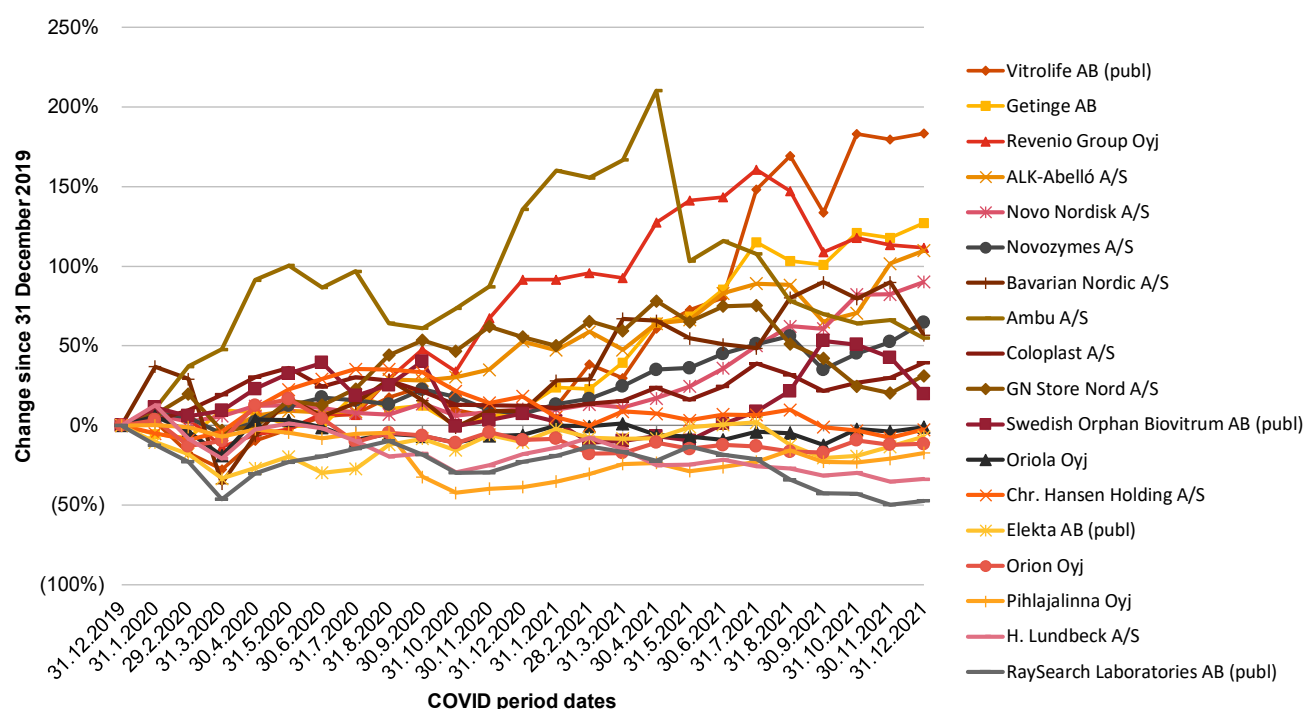


However, one would be mistaken if one believes that the strong growth in the healthcare industry is largely due to pharmaceutical companies riding on the COVID wave. It seems that Vitrolife AB (reproductive market) and Revenio Oyj (ophthalmic diagnostics market) is winning the market.

Our universe of healthcare companies included a variety of business areas across different treatments. Some of which are

pharmaceutical company, manufacturer of medical devices and equipment, research and development-focused, nutrition supplier of consumables and healthcare service provider. Many expected the COVID-19 pandemic to be the key driver of the general outperformance of healthcare industry. The logic expects that due to the heightened health awareness and severe shortages of medical equipment or services, the healthcare companies are more likely to receive greater order volume, hence greater cash flow.

Healthcare companies relative return post-COVID



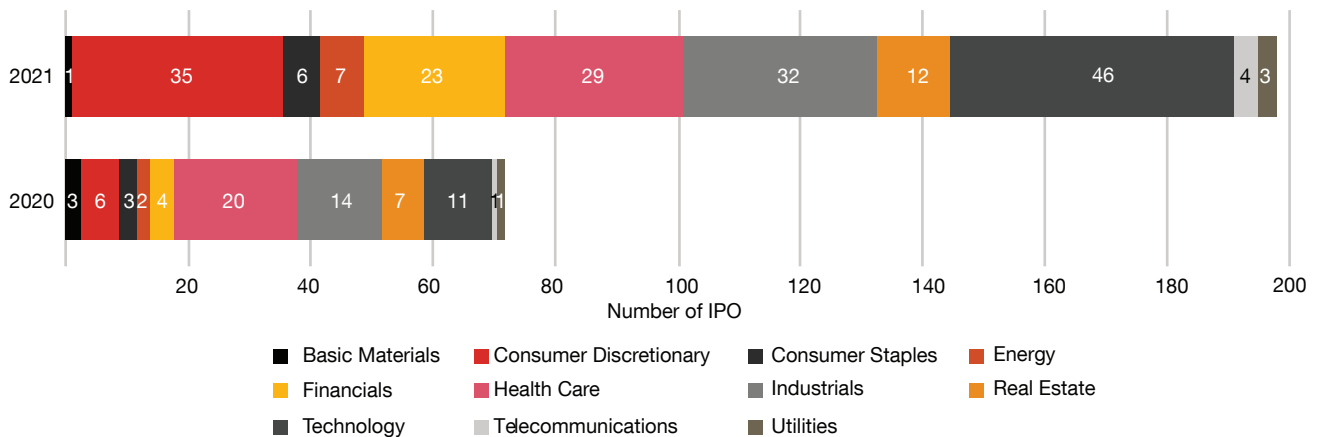
Relating to our sample size however, most of these healthcare companies manufactures or provide services which have little to no relation with the COVID-19 disease. Only 1 out of 18 of our sample, Ambu A/S – a healthcare device manufacturer producing single-use endoscopy and visualisation softwares, is a direct

beneficiary of the COVID-19 respiratory disease because of the sale of aScope™ 4 Broncho in the treatment of COVID-19 in Europe. During the start of the COVID-19 pandemic, Ambu significantly outperformed the other peers and peaked in April 2021.

One stellar company that serves a market unrelated to COVID-crisis is Revenio Group Oyj. It operates within the ophthalmic diagnostics market producing tonometers, perimeters, fundus imaging treating various eye-related diseases such as glaucoma, diabetic retinopathy and age-related macular degeneration. Throughout the COVID-19 pandemic, Revenio consistently emerged

as top player across the Nordic healthcare landscape despite the lack of direct revenue impact from the COVID-19. As it seems, the equity market does not neglect healthcare companies with good fundamentals. Such company is also not overshadowed by pharmaceutical companies with greater media and public attention from COVID.

IPO count by industry



Although we cannot directly draw causality between high valuations and improving volatility against increase IPO activities, we do observe a greater number of healthcare companies active in the IPO markets during the COVID climate. In summary, we believe that this study

helps provide an understanding of the share price development across different industries during COVID-19, as well as, to reduce the concerns of COVID-19 impact for companies considering an IPO.

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