Stock Exchanges: who will be the next champion?

Introduction

Stock exchanges are sometimes considered simply as marketplaces where any investor with a brokerage account can participate in transactions with basic financial securities such as stocks or bonds, or more complex ones such as ETFs and derivatives. However, stock exchanges are also businesses that, like any other business, aim at making profit by providing their products and services to the customers that are willing to pay for them.

Stock exchanges have multiple sources of revenue that can be classified into four groups:

- Transaction fees (trading fees): these fees apply every time a market participant makes a transaction, and this source of income usually corresponds to more than half of all earnings stock exchange makes.
- Listing fees: any company willing to do an IPO on a stock exchange pays a one-off sum when getting listed and annual fees for every year it is staying public. Listing fees apply also to other traded securities, i.e. ETFs.
- Market data: stock exchanges sell real-time market data to companies such as Bloomberg.
- Technology services: stock exchanges sell trading services, applications, and platforms to institutional investors such as funds and banks.

After considering this list of products and services stock exchanges sell to make money, it becomes clear that the main driver of revenue for any stock exchange is the number of securities that are traded there, as this parameter affects every source of income. Hence, events making initial listing or continuation of listing less desirable are harmful for stock exchanges' revenues, and different stock exchanges compete to attract issuers with the highest potential to become popular among its clients.

In this article we will provide an overview of the biggest players per geography, looking at Europe, US and Asia. We will utilize recent listings to explore and explain some trends and analyze how the panorama is changing, with the increased importance of Amsterdam and Hong Kong.

Europe Overview and Players

In Europe there are five major stock exchanges, two of which stand in the 6th and the 7th place in the world ranking of stock exchanges by overall market capitalizations of all the companies listed in it. A brief list of the major European stock exchanges follows.

Euronext Stock Exchange: despite being a single stock exchange, it combines five markets in Brussels, Amsterdam, Paris, Dublin, and Lisbon. The combined market capitalization of all the companies traded on Euronext's markets amounted to $4.7tn as of December 2019.

London Stock Exchange Group (LSEG): it consists of two exchanges, London Stock Exchange and Milan Stock Exchange (Borsa Italiana); however, in October 2020 London Stock Exchange Group agreed to sell Borsa Italiana to Euronext for €4.3bn, and thus LSEG is going to become purely London Stock Exchange. As of December 2019, companies listed on London Stock Exchange and Borsa Italiana had a combined market capitalization of $4.2tn.

Deutsche Boerse: operates the main stock exchange in Germany, Frankfurt Stock Exchange, and as of December 2019 had a total market capitalization of companies traded there of roughly $2tn.

SIX Swiss Exchange: operates on Switzerland's main stock exchange, Zurich Stock Exchange, and as of December 2019 had a total market capitalization of companies traded there of roughly $1.8tn.

Nasdaq Nordic: pan-European stock exchange that operates multiple markets in two regions: Nordic (Scandinavian) countries and Baltic countries. The first region counts stock exchanges in Stockholm, Copenhagen, Helsinki, and Reykjavik, whereas the second one consists of stock exchanges in Tallinn, Vilnius, and Riga. The overall market capitalization of the companies traded on Nasdaq Nordic was $1.6tn as of December 2019.

Recent European IPOs and Trends

Besides these five stock exchanges, local stock exchanges exist and operate in virtually every European country. However, it is unfeasible to cover all stock exchanges in the single article, and thus our focus remains on the major stock exchanges. Here we provide some interesting recent examples of IPOs on major European stock exchanges that we think it is worth mentioning and describing.

InPost (Euronext Amsterdam): a Polish firm providing parcel lockers, made a huge success with its IPO in January 2021. The company has not raised any funds with this IPO, however, InPost's shareholders were able to raise very hefty €2.8bn for a 35% stake in the company, making this IPO Europe's biggest since 2018. Unlike Allegro, another Polish company that had a heavily successful IPO recently (in October 2020) on Warsaw Stock Exchange, InPost decided to do placement in Amsterdam as the company believes that this venue would best position the company to connect with European technology investors and for further international expansion.

Kaspi.kz (London Stock Exchange): a fintech company from Kazakhstan, made a surprising debut on London Stock Exchange in October 2020. The company was valued at $6.5bn, which made it one of the largest IPOs in Europe ever. For a prominent fintech service such as Kaspi.kz, London Stock Exchange was an understandable choice as London remains the top European hub for fintech, and a successful IPO granted access to major capital markets and publicity to the company from a less known for international investors country.

AUTO1 (Frankfurt Stock Exchange): it is the most recent example of the list, it is another tech IPO and it took place in February 2021. Despite the price interval being €32 - €38, a Berlin-based used car trading platform saw its shares start trading at €55, which proves a tremendously high demand for tech IPOs among European investors. According to the recent Deutsche Boerse report, Frankfurt Stock Exchange accounts for 26% of the total market capitalization of tech sector in Europe and takes the second place, with the leader being Euronext Amsterdam with 27%.

V-ZUG Holding AG (Swiss Stock Exchange): with only two IPOs in 2020, the SIX Swiss Exchange proves to be considerably less active in IPOs than its competitors. However, last year an IPO of V-ZUG, the Swiss market leader in the household appliances sector, happened. Despite not being a hot tech IPO, V-ZUG's equity story makes this IPO interesting as the company was spun off from Metall Zug AG, a Swiss company with more than 100 years of history. Also, worth mentioning is that the market capitalizations of companies doing IPOs on SIX Swiss Exchange are, in general, lower than on other major European stock exchanges, with market capitalizations of CHF 463m for V-ZUG and CHF 215m for Ina Invest Holding AG, the second company that did an IPO on Swiss Stock Exchange last year .

GreenMobility (Nasdaq Copenhagen): out of all Nasdaq Nordic local stock exchanges, the biggest and most active in terms of IPOs are stock exchanges in Stockholm and Copenhagen. Besides, there are also Nasdaq First

North Growth Market regional stock exchanges, aimed at helping smaller companies grow in the public mode. Last year, a Danish electric car sharing company GreenMobility changed its listing venue from Nasdaq First North Growth Market Denmark to Nasdaq Copenhagen's Main Market to start playing in a bigger league. However, GreenMobility's market capitalization at IPO was only around €65m, which might suggest that small IPOs are suitable for Scandinavian listing venues.

After reviewing some of the recent IPOs on all major European stock exchanges, it is fair to say that Amsterdam and Frankfurt are the best venues for technological companies, London is the most suitable place for fintech startups, and other stock exchanges are more attractive for smaller companies from respective regions. However, with Brexit transition period having been finalized last year, there is a clear trend happening right now of financial businesses moving to other EU locations such as Dublin, Frankfurt, and Paris. That being said, there is a clear early beneficiary of Brexit and financial business' exodus from London – Amsterdam. In January 2021 Amsterdam has already surpassed London as a leading trading hub in Europe. Moreover, Amsterdam might further strengthen its positions as the number one venue for technological IPOs, and even become more attractive than London for fintech startups, with Spanish fintech AllFunds already planning to list on Euronext Amsterdam. Even if Amsterdam does not manage to become a leading individual stock exchange in Europe, London Stock Exchange is going to have hard time competing with Euronext (especially after passing its control over Borsa Italiana to Euronext) and Deutsche Boerse.

US and Asia Overview and Players

New York Stock Exchange: headquartered on Wall Street, New York Stock Exchange (NYSE) is the largest exchange by market capitalization. Approximately 2,800 companies are listed there, which corresponds to a market value of over $26tn. Since being founded in 1792, it has continuously been home to some of the biggest publicly traded companies in the US. It went public in 2006, and shortly thereafter merged with Euronext, creating the super exchange NYSE Euronext. In 2013 the group was acquired by Intercontinental Exchange (ICE) in a deal valued at $11bn. The following year, Euronext was spun off to become an entirely European exchange again.

Parent company ICE recorded consolidated net income of $2.1bn on $6bn of consolidated revenues less expenses. Despite the pandemic net income has increased by 16% YOY and earning per share grew at double-digits.

NASDAQ: the second largest exchange by market cap, NASDAQ, is headquartered in New York as well and has over 3,300 listings, corresponding to an aggregate market value of $11.2bn. When the exchange was founded in 1971, it introduced a computerized trading system, which by now is the standard for most markets worldwide. NASDAQ is the exchange where leading technology companies first chose to list, and it is now known as a proxy for that respective industry.

In 2007, the OTC exchange merged with OMX, a Scandinavian exchange group, and thus created NASDAQ OMX, which constitutes the currently largest exchange group in the world. 2020 revenue of the group amounted to $2.9bn, representing a 15% increase YOY.

Shanghai Stock Exchange: with a market capitalization of $4.7tn the Shanghai Stock Exchange (SSE) is the 4th largest exchange in the world. Being one of only two exchanges in mainland China, it is controlled by the China Securities Regulatory Commission (CSRC), which manages it as a non-profit organization. The shares of the companies listed on SSE are available in two forms: As A-shares or B-shares. The former are denominated in yuan and are generally open only available to domestic investors, while the latter are quoted in US dollars and also open to international investment. There is an additional class known as H-shares that corresponds to shares of Chinese companies traded on the Hong Kong Stock Exchange. This special class is quoted in HK dollars and is also open to foreign investors. It is also worthwhile to point out that the bulk of the over 1,500 companies listed at SSE is made up of formerly state-run companies.

Hong Kong Stock Exchange: with the total market capitalization of the 2,500 listed companies amounting to over $4.3tn, this exchange represents the third largest exchange in Asia and the fifth largest worldwide. In recent times the growth of the exchange was particularly accelerated by listings of Chinese firms by means of H-shares. This "Stock Connect" link relaxes regulations that aimed at separating shares available to domestic and foreign investors.

The stock Exchange of Hong Kong, which was founded in 1866, is currently owned by Hong Kong Exchanges and Clearing Limited (HKEX), a company that it also listed at the exchange itself.

Recent US and Asia IPOs and Trends

In the following we are going to introduce some of the IPOs that have taken place at the major exchanges in the rest of the world. Afterwards, we will present the most important trends affecting the industry, and in particular, Hong Kong.

DoorDash (NYSE): in December 2020, the leading delivery company DoorDash started trading at the New York Stock Exchange after raising $3.4bn in an initial offering. Due to the immense demand, it finished up 85% on its debut and was valued upwards of $60bn. Like its competitors GrubHub and Uber, it has enjoyed steady revenue growth during the pandemic, thanks to people staying at home and restaurants being closed.

Airbnb (NASDAQ): another massive tech-IPO took place in December 2020, namely the one of Airbnb. In one of the most anticipated flotations in recent times the company ended up raising $3.7bn, which gave it a market cap of around $86bn. Despite a slump in revenue the IPO was still heavily oversubscribed, and the firm's stock closed up 112% on its first day. With its current valuation the disruptor has a considerably higher market capitalization than hotel chains like Hilton or Marriot.

SMIC (SSE): Semiconductor Manufacturing International Corp (SMIC) held a secondary listing on Shanghai's STAR Market. The company, which was initially only listed in Hong Kong, has raised an amount in excess of $6.5bn. This offering was made possible thanks to a relaxation in Chinese regulations, the usually monthlong filing process was reduced to a mere 18 days in this case. The proceeds of the IPO should go towards the construction of new plants in which the company plans to manufacture computer chips. Currently, SMIC is still unable to create chips that are compatible with Huawei's sophisticated products and that can compete with market leader TMSC, and it wants to change this fact with the planned production facilities.

Kuaishou (Hong Kong Stock Exchange): Kuaishou, one of China's biggest social media companies, went public in Hong Kong recently. The TikTok rival raised an amount equivalent to $5.4bn, meaning that this was the largest tech-IPO since Uber. The video and live-streaming platform, which is supported by Tencent, has over 300m daily users. The majority of its revenue is generated through live-streaming transactions where customers can buy virtual objects.

Ever since the Chinese government implemented the highly controversial security measures last year, Hong Kong's appeal as an international marketplace was expected to decline. Month long protests and the COVID-19 outbreak also did not help to ameliorate the situation in the city. However, from what could be observed in the past months, exactly the opposite seems to have taken place. Indeed, there were over 120 new listing at the Hong Kong Stock Exchange in 2020, which corresponds to a total amount raised of $47bn. This represents a 17% YoY increase, only

NYSE and NASDAQ could show higher figures. Additionally to Kuaishou, which has listed in HK as mentioned above, corporations from the mainland such as Alibaba, JD and NetEase have made secondary offerings there.

These facts clearly show that big tech firms like Kuaishou choose to list in HK rather than on US stock exchanges. It means that Chinese companies, even in the technology sector, which traditionally relies on exchanges like NASDAQ for publicity, are becoming less dependent on the marketplaces in the US. This new development is in part due to the new security laws in HK, as it makes investing at the Hong Kong Stock Exchange easier and more attractive for mainlanders. Chinese companies are also interested in being nearer to their home market, where some of their actual customers might invest in them. This rationale is supported by the fact over 50% of the inflows from Chinese investors came after the new laws were implemented.

There are multiple other reasons for HK's current success, one of which is the introduction of the above-mentioned Stock Connect, a collaboration between the Hong Kong, Shanghai and Shenzhen Stock Exchanges, that allows international and Mainland Chinese investors to trade securities in each other's markets through the trading and clearing facilities of their home exchange. In 2020, mainland buyers acquired $87bn of HK shares through the programme, and in 2021 YTD that number already amounts to $49.1bn. Recently, a record of $2.5bn worth of daily purchases via the Stock Connect link with China was established.

Another reason for the exchange's current popularity may be that equities at HK are valued at a discount to Shenzhen and Shanghai. This is because prices in the city dropped dramatically during the protests and the COVID-19 outbreak and thus present a good opportunity for enthusiastic investors. As a consequence of these developments, trading volumes at the Asian exchange reached around 60% of NYSE.

Conclusions

In Europe, the main question of the upcoming months and years is how London Stock Exchange is going to compete against other players, mainly Euronext and Deutsche Boerse, for the major tech IPOs that have seen a clear boom recently. In the meantime, Euronext Amsterdam might become a European leader in the post-Brexit world, with Euronext as a group becoming a global stock exchange powerhouse with Borsa Italiana joining it.

On the other hand, Hong Kong has managed to overcome controversy and climbed to new levels in the past few months. Currently it is the fastest growing Asian exchange and increasingly seen as the NASDAQ of the east, thanks to a continuous stream of high-profile tech IPOs and secondary listings.

It is improbable that the trend of Chinese firms listing at HK will stop anytime soon, rather one could hypothesize that HK will gain even more importance as tensions between the US and China persist. Large corporations, such as China Mobile, were recently evicted from American exchanges and have subsequently listed at HK and brought even more liquidity to that market. If China further broadens its scope of influence, it may well be that soon companies from other Asian countries will turn away from US and European exchanges in favor of HK or Shanghai.

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