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PREMIUM LISTED UK IPO BOARDS LACK DIVERSITY

Boards of newly listed companies are less diverse than FTSE 100 companies

LONDON -- A new study examining the board composition of all UK premium listed IPOs in 2015 and the first half of 2016 was launched on Wednesday evening by Sapphire Partners, a leading executive and non-executive director search firm. The study was launched at an event hosted by Numis at their London Stock Exchange headquarters and a cross section of non-executives, HR directors, private equity firms, brokers, accountants, and IPO advisers.

The findings reveal a low level of diversity on boards for newly listed companies. While the largest UK-listed companies have made progress diversifying their boards, board diversity in the IPO'd companies had low levels of diversity when measured by gender, ethnicity and backgrounds.

Key Findings

32% of new premium segment listings had no racial or gender diversity on their boards at IPO in 2015. 14% (1/7) had no racial or gender diversity on their boards at IPO in the first half of 2016.

Only 15% of non-executive director (NED) appointments to 2015 IPOs were women, less than half when compared with 30% of appointments in the FTSE 250 and 38% in the FTSE 100, during 2015. 23% (10/44) of NED appointments to IPOs were women in the first half of 2016.

Three-quarters of 2015 IPOs were private equity-backed companies; these corporate boards were on average less diverse: 37% of private equity-backed IPOs had all male boards, versus 17% of non-private equity-backed IPOs 2015. In the first half of 2016 25% (1/4) of private equity backed IPOs had all male boards, versus zero all male boards of non-private equity-backed IPOs.

40% of men appointed to non-executive roles were first-time NEDs, while only 16% of women were first-time NEDs in 2015. 36% (16/44) of men appointed to NED roles were first time NEDs and only 7% (3/44) of women were first time NEDs in the first half of 2016.

Only 6% (8/130) of NEDs in 2015 IPOs were from ethnic minorities and only 5% (2/44) for the first half 2016.

No black people have been appointed out of the 186 executives and NEDs at the IPO companies in 2015 or 58 executives and NEDs in the first half of 2016.

5% of executive board members of the 25 IPO new listings were women (1 CEO, 2 CFOs) and 21% (1 Group CFO, 1 CFO/Co Sec and 1 COO) for the first half of 2016.

The research included all 25 premium IPOs on the London Stock Exchange in 2015 and all 7 in the first half of 2016.

^[1] Credit Suisse Research Institute (September 2014) highlighted the finding that companies with more than one woman on the board returned a compound 3.7% a year over those that had no women board members.

^[2] Female FTSE Report 2010, Cranfield School of Management. December 2010.

Pressure on market-leading companies to have more diverse boards has been growing since the Davies' Report on Women on Boards and the 30% Club launch in 2010 but this has not yet reached the newest public companies.

Sir Winfried Bischoff, Chairman of the Financial Reporting Council, commented:

"Diversity of background and experience not only encourages better leadership and governance but also contributes to all round board and management performance. This applies as much to established well-known companies as to newer IPO entrants to the listed sector."

"For boards to remain effective they must keep under review the balance of skills, backgrounds and experience needed to develop and oversee the delivery of the company's strategy. Throughout my career I have noted that greater attention to a diverse pool of senior executive talent leads to increased performance for the company and its shareholders. The argument that you need diversity of thought and perspective has moved from being politically correct, to increasingly being regarded as enlightened business sense."

Laura Carstensen, Equality and Human Rights Commissioner and Chair of the recent inquiry into the appointment of NEDs to FTSE 350 companies, said:

"These findings show the stark reality that many companies still lack diversity at the very top. There is a view around that the problem of too few women in our boardrooms has been addressed. It has not. At best, a start has been made. Our own women on boards inquiry revealed that nearly half of businesses had not increased the number of women in senior positions, some had even dropped. In some cases, any increase was due to reduced board sizes and not more women in senior positions."

"It simply does not make good business sense, in an ever more competitive and global economy, to be overlooking the talent of half of our population. Businesses looking to make the next step, such as these, need to understand and act on diversity now. It is good for business, good for the economy, and good for society".

Kate Grussing, Founder and Managing Director of Sapphire Partners, commented:

"The boards of the premium listed IPOs in the UK really missed a trick in not coming to market with greater diversity among their non-executives, and could have started their listed lives with more diverse advice and guidance from their boards. It is especially disappointing that private-equity backed IPOs were materially less diverse than non-private equity-backed IPOs. Corporate governance is an increasingly hot topic in the capital markets yet this research shows that the majority of IPOs on the premium segment of the LSE in 2015 were not compliant with the combined code with reference to their board composition and non-executive director independence."

"Embarrassingly few of these well-advised IPOs have started their journeys as public companies with genuine board or executive team diversity."

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Recommendations

Companies preparing to IPO should start to recruit boards early in the listing process to ensure they consider a diverse slate of candidates.

The **corporate advisors** in IPOs (especially lawyers and investment bankers but also accountants, IPO advisors, financial sponsors, and PR firms) should play a greater role to encourage the UK's newest public companies to list with more diverse and robust boards.

Institutional investors should apply more pressure to companies to ensure boards are more diverse and independent at IPO.

Private equity firms should be more proactive to ensure their portfolio companies have diverse boards when they IPO.

More companies planning to list on the premium segment should retain an **executive search firm** with sufficient lead time to ensure a properly diverse board can be announced at time of IPO.

The **listing authority and/or the stock exchange** should mandate for premium listed companies to come to market with a diverse board.

Sapphire will monitor progress in this area over time and will analyse whether IPOs with more genuinely diverse boards deliver better corporate governance and generate improved investor returns.

- Ends -

Notes to editors:

| WOMEN ON FTSE 350 BOARDS | | | | |
|--------------------------|----------|-----|----------|-----|
| FEMALE DIRECTORS | FTSE 100 | | FTSE 250 | |
| Executive Directors | 28 | 10% | 31 | 6% |
| Non-executive Directors | 257 | 32% | 380 | 26% |
| EDS & NEDS | 285 | 26% | 411 | 21% |

Source: BoardEx 4/07/2016

Note: Table above reflects current board composition, not the flow of appointments.

Companies to highlight: 8 companies of the new premium listings succeeded in appointing both women and ethnic minority board members. These enlightened companies who made the effort to IPO with a diverse board are:

- Georgia Healthcare Group plc
- HSS Hire plc
- McCarthy & Stone plc
- Puretech Health plc
- Sophos Group plc
- Softcat plc
- Forterra plc
- CMC Markets plc

Methodology: All 25 new premium segment listings in 2015 and all 7 in the first half of 2016 on the London Stock Exchange were analysed.

IPOs on AIM segment and Standard segment were not included as their corporate governance obligations and expectations are less rigorous.

All data based on public filings.

Sources consulted include Factset, London Stock Exchange Group, BoardEx, prospectuses, ITF notices, company websites, EY IPO Eye, Credit Suisse Research Institute and Sapphire proprietary analysis.

The board composition was analysed at the time of the IPO. Some boards have improved their diversity subsequent to the IPO.

Selected Profiles of NEDs: Sapphire has profiled 13 of the new NEDs appointed to these IPOs, and spotlighted 5 BME individuals and 10 women, as examples of the great talent on these companies' boards. They represent some of the strong talent ready for larger FTSE boards. Please get in touch if you are interested to know more.

About Sapphire Partners: At Sapphire Partners we think smarter about executive search. In our 11 year history we have brought a fresh approach to search in our non-executive and senior executive appointments. Our passion for diversity (on average we place 50% men and 50% women) and our "hand-picked" approach to our clients and candidates enable us to present exceptional candidates who are aligned with our clients' values and cultures; who not only fit the industry, they change the industry. We pride ourselves on our thorough process and forensic research that enable us to present not simply the 'usual suspects' but to find hidden gems in the marketplace. Please contact us if you have any comments or questions you would like to discuss on these findings.

For further questions please contact

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