

# The shrinking market

Now that the summer silly season (lower volumes, increased volatility) is passing, and the feared Fed funding rate increase has become fact, it is worth putting today's market level in the context of historical capital flows.

The flurry of deals taking smaller quoted stocks private and the occasional eye-catching mega-bid, instill a sense

of confidence that the corporate sector still recognises value in shares despite the giddy rise of the index in the last ten years. But do the numbers support that view?

Analyse the new equity issuance in the UK over the last 20 years then subtract the value extracted by share buy-backs and M&A activity, and you are left with a staggering £117bn shrinkage of the market (Figure 1).

This year is no exception: internet IPOs attract a significant amount of media attention, but the overall level of issuance is a sum dwarfed by the £60bn (annualised) worth of M&A deals (180 deals in total). The rally in the

Small Cap indices would look to be an endorsement of how the imbalance of flows can affect performance: M&A deals in smaller companies account for 81% of the total so far this year, a figure that represents 3.4 x their market weighting.

If this analysis seems to underpin the equity market in the UK in the medium term, we should not lose perspective of the resultant diminished status of the UK corporate sector as a user of equity finance relative to practice in the rest of the world.

The continental markets are hungry for capital and are attracting it through privatisations, demergers, equity financing for acquisitions, rights issues, convertibles and a booming IPO market in the technology sector.

The third quarter of 1999 looks set to record €20bn\* of equity issues in Europe, with estimates of another €30bn\* tapping the market before year end, including a number of € multi-billion privatisations. (\*Source: IFR)

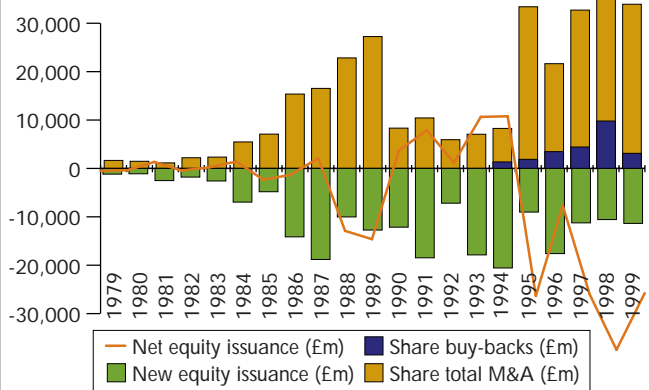
For global investors the value argument remains intact for the UK market with strong support from the 'shrinkage' and M&A flows. However, their attention will inevitably be drawn elsewhere while the corporate sector here continues to prefer debt finance to equity. ■

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FIGURE 1

## Net shrinkage of the UK stockmarket



## INTERNATIONAL EQUITIES

These are a selection of issues announced recently. The details, updated to the middle of last month, were supplied by IFR Securities Data, London and other sources.

Issuer	Amount raised (m)	Type of issue	No shares (m)	Offer price	Pricing date	Exchange listing	Fees (%)	Bookrunner
<b>Blockbuster Entertainment</b>	USD465	IPO	31	USD15	10 Aug/99	New York	4.75	Salomon Brothers Bear Stearns International
<b>Das Werk AG</b>	EUR44	IPO	2.2	EUR20	20 Aug/99	Frankfurt Neuer Markt		BHF-BANK AG
<i>Comment: The company intends to use the proceeds from the sale to finance expansion and invest in new technology.</i>								
<b>Hutchison Telecommunications Australia</b>	AUD218.5 AUD90	IPO	95 45	AUD2.3 AUD2	13 Aug/99	Australia	3.7	Warburg Dillon Read Salomon Smith Barney
<i>Comment: Sale prompted by group's Hong Kong parent Hutchison Whampoa to float various international subsidiaries.</i>								
<b>Novus Petroleum</b>	AUD28.22	P	16.6	AUD1.70	18 Aug/99	Australia	2	Merrill Lynch International
<i>Comment: Proceeds will be used to acquire Gulf Australia.</i>								
<b>TV Shopping Network</b>	AUD39.1	IPO	32.6	AUD1.2	13 Aug/99	Australia		Warburg Dillon Read
<i>Comment: A 24-hour shopping channel.</i>								
P = primary; S = secondary; IPO = initial public offering; D = demerger.								