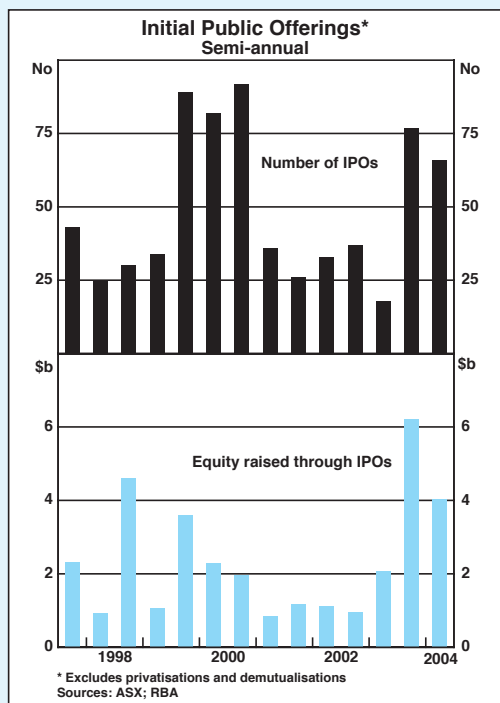


Box D: Initial Public Offering (IPO) Activity in Australia

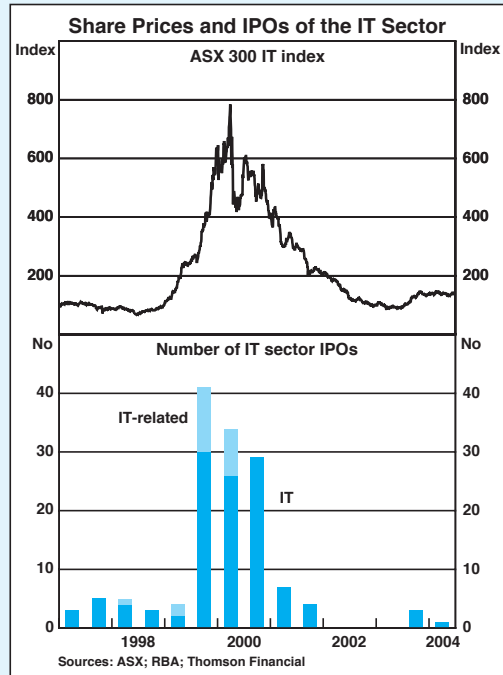
The past year has seen a relatively high level of IPO activity on the Australian Stock Exchange (ASX). Since end June 2003, more new companies have listed on the ASX than during any previous 12-month period aside from the ‘dot.com’ related wave of IPO activity during late 1999 and 2000 (Graph D1). In terms of the value of equity capital raised through primary offerings (excluding privatisations and demutualisations), the past financial year has been the strongest on record.

Graph D1



The increase in IPO activity in late 1999 and 2000 corresponded with the height of the dot.com boom (Graph D2). The jump in the number of IPOs during this period was primarily due to IT and IT-related IPOs and came after IT share prices more than doubled in the first half of 1999. IT share prices peaked in March 2000 at almost eight

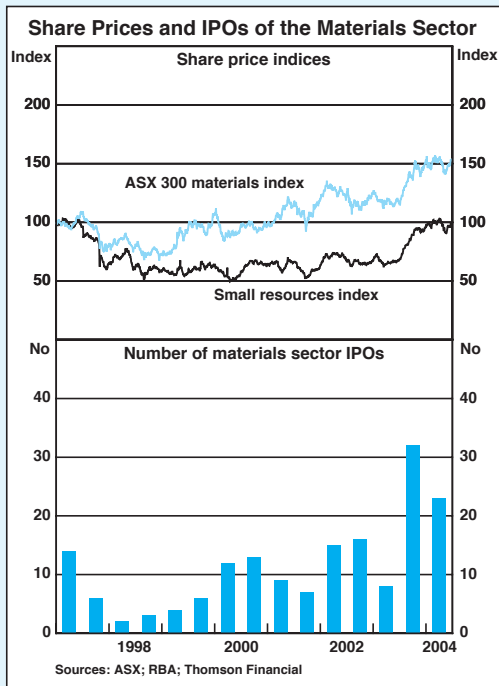
Graph D2



times their end 1998 level and fell sharply thereafter, reverting to their end 1998 level by end 2002. The drop-off in IPO activity was just as pronounced, with very few IT companies having listed since 2001.

The pick-up in IPO activity in the second half of 2003 corresponded with a turnaround in global equity markets and a more optimistic global economic outlook. The increase in listings was in part driven by listings of materials companies, particularly mining companies (Graph D3). The strength in mining IPOs reflected strong increases in US dollar commodity prices and in demand from China, and significant increases in resource company share prices. Other sectors that have participated in the recent wave of IPOs include the health care, financials (primarily property trusts and listed investment companies) and consumer discretionary sectors.

Graph D3



As with IT companies during the dot.com boom, mining companies have accounted for more than one-third of total listings during the past year. However, the growth in the number of listed mining companies is nowhere near as pronounced: the 54 recently listed mining companies comprise around 15 per cent by number of all listed mining companies and a very small share of their market capitalisation. Moreover, the rise in resource companies' share prices, although strong, has been much less than that of IT stocks during the dot.com boom.

Many of the recently-listed mining stocks are start-up companies with little or no earnings history, and some are not currently profitable. The speculative nature of some of these companies is further highlighted by

the wide variation in the performance of their share prices since listing: the prices of several have almost tripled, while others have lost around two-thirds of their value. By end June, the median return on issue price for mining companies that have listed during the past year was -19 per cent and the weighted average return (based on the amount raised in the IPO) was -4 per cent. Less than one-quarter of new mining company listings have outperformed the All Ordinaries index since their issue. This is somewhat below the historical performance of mining IPOs.

It should be noted, however, that the share price performance of other companies that have listed in the past year has also been varied (Graph D4). By end June, the median non-mining company was 1 per cent higher than its issue price, and the weighted average return on issue price was 6 per cent. About half of recently-listed non-mining companies have outperformed the All Ordinaries index since listing. This is in line with the average post-listing performance. ✕

Graph D4

