



A PRIMARK Company

The Outlook For Capital Gains and IPO'S

presented by

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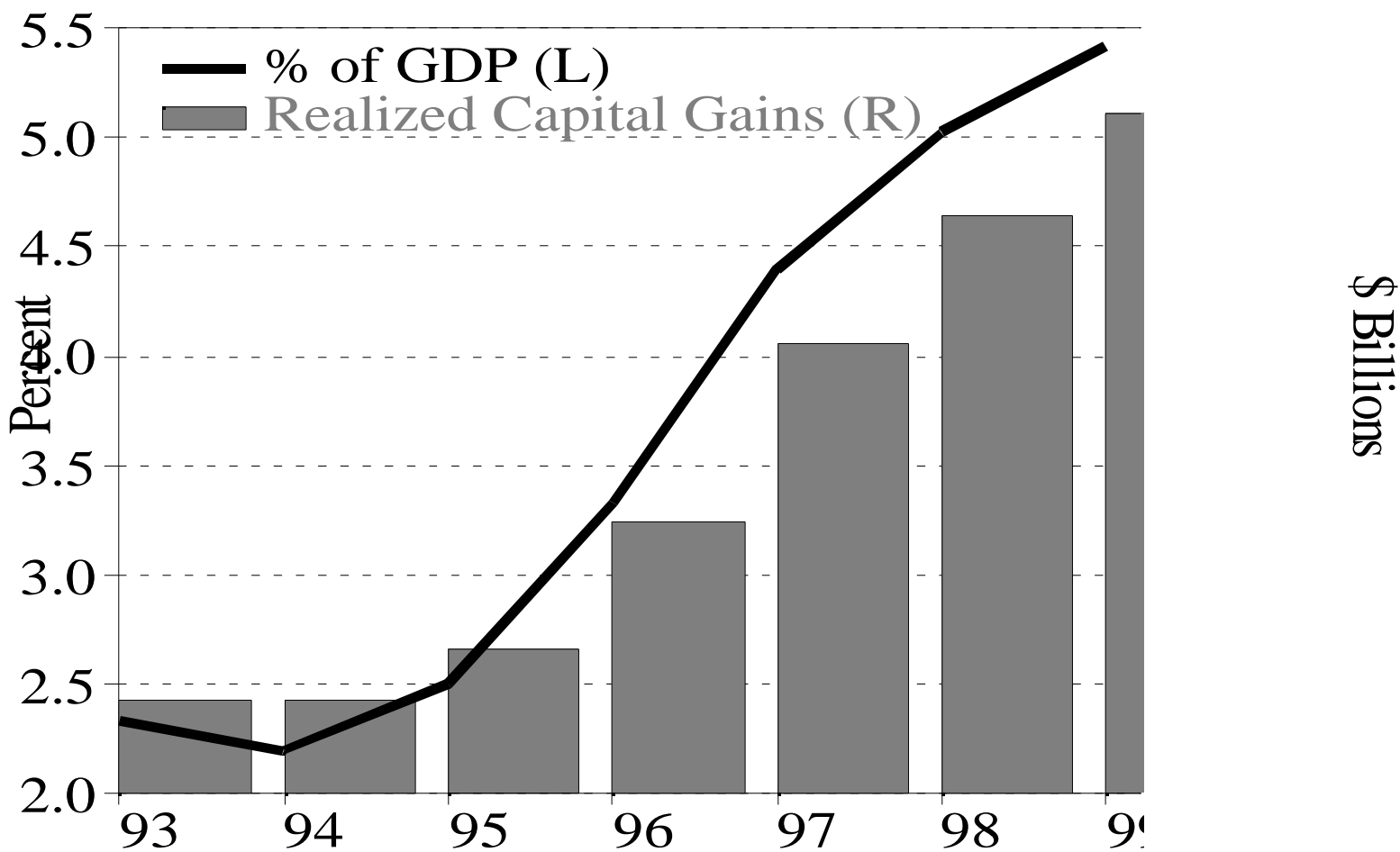
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Realized Capital Gains Explode “Ownership” Gains Key



Different Wealth Effects and Other Drivers of Consumption

**“Ownership” type capital gains: IPO proceeds,
employee stock options, and some severance.**

Wealth effect from “arms-length” investor capital gain

Wealth effect from home-owner gains.

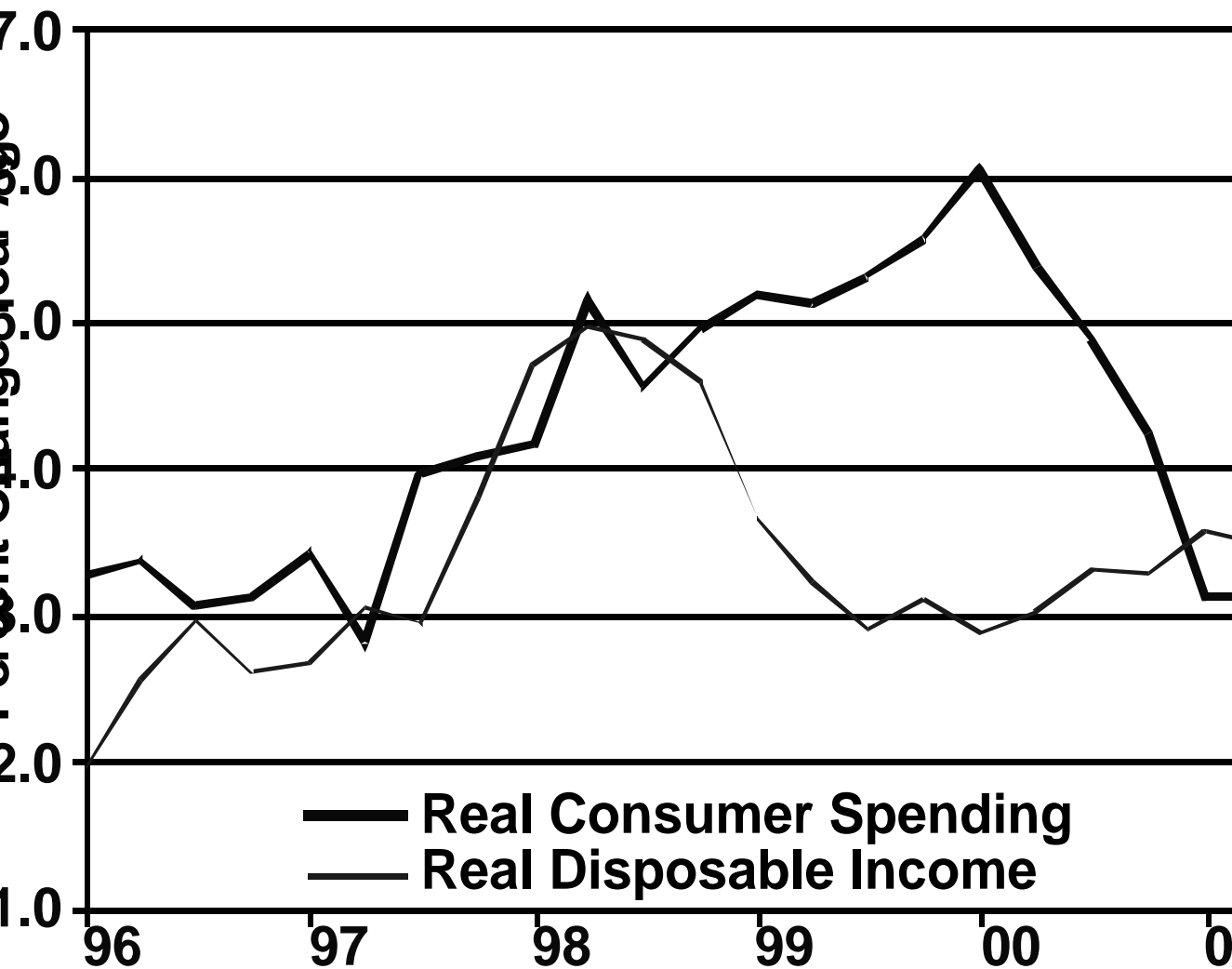
One-time expenditures for a new job—car and clothes

**One-time expenditures related to house purchase
furniture, appliances etc.**

**High consumer confidence from low inflation and
unemployment.**

**CONCLUSION: Consumption growth has slowed, but
needs continuing drag from the above to stay down**

Spending Moves Back in Line with Income



IPO Boom Enriches Owners

THE IPO BOOM...

ge opportunities. Supplies
l needs. US leads
rge of venture capital.
nt wealth creation. \$700 bio
1999. Mostly for owners:
y \$105 bio for companies
ives personal spending
re than investment
mporary addition to
mputer equipment
ending, Commercial real
ate.

...IS NOW CORRECTING

- IPOs down. Valuations down. New is %down. Frantic search for next new
- Funds outstrip outlets? Foreign?
- Profit outlook poor. Returns go to stakeholders. Near zero marginal co (like TV ?) no pricing power
- Shareholder value record poor. Tiny issue % “profits don’t matter”
- Therefore stock values unrealistic. Acquisition offset? (Cisco, AOL). Proprietary offset? New telecom/ op switching etc. surge?

Conclusions: Like many booms, takes an opportunity and overdoes it. Investment must become more selective.

Further correction likely

Abuses in the IPO Market

Sales Reporting

Profit Reporting

Customer/Analyst stock
presents

Shareholders get returns,
but shareholders "Profits
don't matter"

Result: Investors get
high, venture credit
crunch?

FTI Capital Gains Sept 2000



Some InfoSpace IPO Stories

39-year-old Mr. Jain (founder of InfoSpace) has spent about \$200 million, actually, on buying or selling one-fifth of his shares.

John Remy Facq, age 32, has managed to avoid selling much of his roughly 300,000 shares of InfoSpace.com now worth about \$1.7 million, for which he holds options to buy at only a penny a share.

Marcus, the 24-year-old programmer ...recalled... that when things got so tight initially he had to sell his car, carry groceries home in his son's stroller, and grow from his wife's family

"We just wanted to see what kind of houses you could get for this kind of money". (He buys the \$15 million house)

Mr Facq began borrowing so he could start scooping up a few of what Mr. Jain calls "toys" A BMW 740. A BMW sedan. A \$600,000 house. A Dodge Viper with 8 cylinders and 450 horsepower

He bought a Jeep Grand Cherokee. A BMW-740 sedan (over \$70,000). A used Ferrari ...a \$600,000 house...and plane tickets for two relatives to come visit

Source: Bloomberg

Broad Stockmarket Risks

RISKS

Recent decline extends?
Stocks Overvalued
Profit growth slows
Rising interest rates
Fed wants to slow down
"Wealth effect"
Bubble in tech stocks?
"Owner" gains could
fade

PROTECTIONS

- Prior 20% stocks correction and this one so far only modest negative for sentiment and spending
- Other sources of excess spending (Contrary to Fed)
- Bond yields and Fed cuts could offset

Conclusion: Further selloff risk is substantial: Unlikely to quickly lead to recession. Even stable market a big change

Income to Rise: Profit share to Fall

	1992	1997	1999	2000	2005	
Employee compensation	73.3%	70.3%	70.9%	70.2%	70.6%	Pushed Down in mid 90's Now labor markets tight
Proprietors income	8.7	8.8	8.9	9.0	10.4	Starting to rise Future gains expected
Capital	1.3	2.0	1.9	1.8	1.9	Big Past Gains. Now slow
Interest	8.0	6.4	6.2	7.1	6.2	Big Drop in 90's. Recent Gains and through 2000
Gov. Profit (Economic)	9.0	12.6	11.5	11.9	11.1	Gained as Comp. And declined. Now comp to
Gov. After Profit	6.2	8.4	7.6	7.9	7.0	High point for share in 1997
Total equals income	100.0	100.0	100.0	100.0	100.0	

Conclusion: End of Capital Gains Revenue Boom

IPO WEALTH

Creation highly concentrated in tech development states
Creation rate shrinking sharply now, half of peak rates. Recovery?
Stop loss cashing in this year.

Realizations/Revenue from this source could fall 25% from peak

CAP. GAINS REVENUE

- Stable overall stock market a big change
- Large stock of unrealized gains
- Non IPO “owner” realizations will grow
- Stop loss selling
- Federal receipts may grow to \$120 bio this year, but fall in 2001