locked&loaded

ISSUE 16 JULY 2013

FEATURING

LOCK Finance

A word from Craig Brown

Half way

We are nearly at the half way point of the year and like any business we have been busy reviewing our progress to date.

If I was to mark ourselves on our Key Performance Indicators (KPI's)I would give ourselves a sound "Pass" mark – with a could still do better (sounds like one of my own school reports from many years ago).

One of the core KPI's in any business is revenue growth and in this regard Lock Finance has been doing well and we need to thank the Accountants and Professional Advisors who have been a significant contributor to our new business growth.

This growth has come from new clients based throughout NZ, from Auckland down to Napier, Christchurch and Timaru, and across a range of industries including recruitment, contracting, engineering, food import / wholesale.

On the economy the NZIER in their June media release advise that the NZ economy is recovering. They are indicating that economic growth will average 2.7% over the next 3 years.

Bank economists are advising that their customers are showing extremely positive sentiment for the economy for the rest of the year. This is on the back of the recent fall in the NZD/USD rate and announcement of the increase in the milk solid payout which will have a positive impact on most export sectors together with the flow on effect throughout most of this large diary farm we call NZ. However the recent drought will have an impact but conditions will remain sound.

The recent BNZ confidence survey says 28% of businesses are thinking about raising their debt levels. From Lock's point of view not all of these will be able to achieve the ideal of bank funded debt, however we are always prepared to see if we can assist with our working capital facilities.

We have also had the pleasure of delivering new Ipads for the introduction of new clients to Lock Finance. These were very warmly received and at the same time we were asked whether the offer would be continued. We do wish to continue with a special offer, so here it is:

Special Offer for the months of July and August.
A Samsung 32 HD Smart LED Television. See below for details.

Good luck with your own businesses and we look forward to hearing from you.

Craig Brown
General Manager Lending

Three Trillion reasons why Factoring works

In a little over 6 years the factoring industry in China has gone from zero to US$3trillion. Who says factoring doesn't work?

As a small part player myself in the development of overseas finance markets I have seen and heard a variety of comments about Factoring. Typically when the World Bank's private sector division, International Finance Corporation (IFC), commences an assistance programme there are multiple critics. China was a classic case in 2007. Many bankers believed the product would not work, "invoices are not robust here", "verifications won't work" and "assigning payments to new accounts isn't possible". Fortunately there were some more pro-active bankers and new factoring products were developed, with great success. As in many markets the activity came from not just the established banks, but a growing non-bank channel of factoring companies. They had that increased flexibility that the large banks could not offer and despite some challenges around enforcement rights many have now developed thriving markets.

China's dramatic growth in factoring activity came about from reforming their legal framework, which gave lenders the ability to secure against accounts receivable and they introduced a strong registry system to clarify the security rankings of multiple lenders. The Peoples Bank of China has been active in other areas also. One example is asset leasing which is another market sector where new regulations were passed and once again is a very active sector.

Internationally more work is continuing on financial sector reform in many emerging countries. Over the next 3 months I will be assisting IFC with their ongoing projects in China, India and Afghanistan. The first step is usually to survey the current market conditions for SME finance and then look to promote changes, as needed, in the legal environment. Once that work is complete, or at least underway, institutions such as IFC help develop programs for Capacity Building. China has proven effectively that, given the right support and framework, products such as Factoring can work extremely well. No-one would expect that the dramatic success of the China market will be replicated in other markets, but every small step helps create better access to finance for the small business sector within those countries.

Simon Thompson
Director

A few simple actions to help you manage your risk

Over the past year, global financial markets have been hugely volatility, usually driven by the perceptions of rising global risk. Whether it is sovereign risk or concerns about global growth, markets have been fearful and unsettled. Being an island nation we find many businesses here in New Zealand are subject to financial markets risk in some way, usually in the form of foreign currency, and most businesses in New Zealand have also been affected by the recent and extreme volatility. When managing foreign exchange risk it's important to be aware of the role currency plays in your business, with an import / export component to hedge you are exposing yourself to one of the most volatile two-way tradable markets in the world, the currency market. A few simple actions can help you manage your risk, educate staff and give them clear guidelines as to how to act when these risks arise.

1. Indentify

Clearly identify currency exposures and what they mean to your business in dollars and cents, short term and long-term if possible, and getting the number right is a very good start. What would a 5% move in the currency mean to your business if you were unhedged on a known exposure?

2. Understand your time horizon

Corporate treasuries often differentiate transactions which are longer term in nature from those which immediately affect the profit/loss, usually because both the duration of the hedge and even the type of instrument differed. Accurately forecasting forward FX exposures will help to mitigate your risk, enabling you to plan ahead, no matter how far.

3. Identify what risks are acceptable.

Larger businesses exposed to FX risk define foreign exchange policies for both immediate and longer time horizons and created strategies for execution which deal with most major events of corporate life, such as cash management, quarterly earnings, debt issuance or capital investments. Your business does not have to turn over $millions for this approach to work for you, and it can be simpler than you think. Working with an independent expert will help you identify where your risk lie.

4. Create FX programs that match the needs of your business.

Budget your FX rates and exposure in line with your business requirements and lead times. FX programs can help protect your business against FX rate volatility and be as simple as "100% cover at all times". Correct FX management in this type of market helps preserve your profit margin, may preserve your sale force commissions and may also give you a competitive edge.

5. Review your FX procedures and polices regularly.

Financial risk management policies should not lie static. Policy documents are fluidic as financial markets change and businesses change, setting it and forgetting it is not always the best action. Again, that review can be in line with what best suits your business, monthly, quarterly of even annually

Forex Limited has been helping New Zealand businesses managing FX risk for 30 years. Call 09 309 5710 for more information or see www.forexltd.co.nz

Simon Denton
Auckland Manager

Hints of economic growth

Hints that economic growth is improving are appearing in the recent consumer and business surveys. Two factors are in the process of providing a significant boost to economic growth: Canterbury rebuilding and improved net external migration that is driving stronger population growth.

The chart shows that the rolling 12 month number of consents for new dwellings in Canterbury is already close to previous peak levels. In the rest of the country there has been only a modest increase, although it could be boosted by stronger population growth.

With 10,000-12,000 houses needing to be completely rebuilt, there should be significant further upside in the Canterbury numbers. Even more significant are the more than 50,000 dwellings requiring significant repairs.

The total residential, non-residential and infrastructure repair job is now estimated by Treasury to be $40b (i.e. around 15% of annual national economic activity). As the rebuilding in Canterbury scales up it could add around 1.5% to national annual economic growth. Many industries and firms around the country will benefit from increased sales as a direct or indirect result of rebuilding.

The other major development that is starting to provide a boost to economic growth is improved net external migration.

In the three months ended in April net external migration added the annual equivalent of 14,480 to the population based on the seasonally adjusted numbers released by Statistics NZ. This is more than 20,000 better than for the three months ended April 2012, which represents a 0.5% improvement in annual population growth.

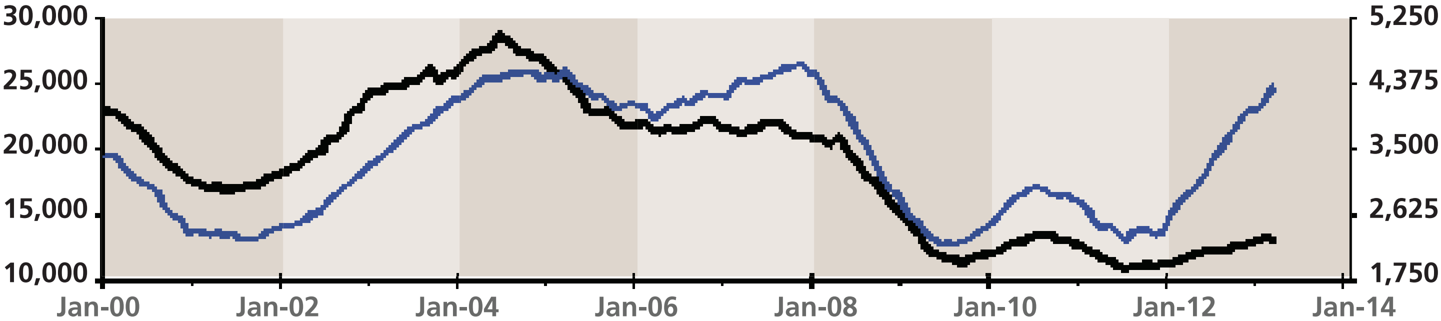
The boom in mining-related construction projects in Australia in the last few years has acted like a magnet to Kiwi workers. However, mining sector employment has started to fall and could fall significantly over the next 2-3 years as the number of major new projects falls.

Rebuilding in Canterbury should boost immigration numbers, but falling emigration to Australia has a greater potential to provide more upside in net migration and population growth.

By the end of the year improved net migration could be adding 1% to annual population growth.

Rodney Dickens
Economist

Written by Rodney Dickens.
Visit www.sra.co.nz to learn about SRA Ltd's services.



The chart shows the rolling 12 month numbers of consents for new dwellings in Canterbury (blue line) and the rest of the country (black line).

Succeeding at succession: establishing the value of your company

As the New Zealand economy starts to improve following the tough years of the Global Financial Crisis, thorny questions surrounding succession planning remain at the fore…. and they're not going to disappear in the near future.

Let's just look at the figures. New Zealand leads the world in the number of privately held businesses that are expected to change hands over the next 10 years – a staggering 69%, well ahead of second-placed Australia with 45% and miles away from the global average of 25%.

So what does this mean in a world where confidence levels remain fragile? Firstly, you will be competing in a crowded market with plenty of opportunities for would-be investors. There is a potential sale hanging from every branch. Secondly, many companies and individuals are looking to pay off debt, not take on more when acquiring a business. And thirdly, the world is gun-shy. Some might say that buying a new business is considered a brave move, but nothing has really changed. The key is to find a good solid business, with sound systems in place that are well documented and one that you can add value to for it to grow and prosper.

Failure to act can result in a host of unintended consequences. In a recovering economy, as we have at present, succession planning is rarely top of mind for business owners. More often privately owned businesses focus on enhancing cashflow, reducing costs and managing day to day operations. On some level, this focus on short-term survival makes sense as businesses have seen a shortage of orders and reduced demand.

The risk is being blindsided by the future. There needs to be more than a short term plan. It's essential that business owners understand the factors that enhance business value. Well managed drivers can improve cashflows, attract investment capital, strengthen compensation structures and differentiate a business from its competition.

To strengthen these various value drivers, privately owned businesses typically need to find ways to enhance cashflow while minimising risk. Companies that hope to maximise value upon succession should consider planning at least three to five years before a transition.

The establishment of a sustainable business model can help business owners achieve a wide range of business and personal objectives – from maximising the sale price of the business, creating ownership opportunities for key employees, to maintaining an on-going role in the business, sharing in future upside or leaving a lasting legacy.

Given the importance of value to strategic decision making and to succession planning, one imagines that every business owner knows the value of their company at any point in time. This is generally not the case as arriving at a business value is as much an art as a science. The scientific approach is the domain of the professional valuer who uses various tools and methods. The 'art' is where value becomes the price the market will bear between a willing buyer and willing seller.

To maximise the selling price to a third party the business owner needs to present a compelling vision of what the business could become rather than an historical perspective of where the business has come from. A compelling story and competition amongst bidders will more likely achieve a selling price above any scientific value.

Conversely, if transitioning to a family member or employee, the business owner may wish to consider a valuation that reflects what the business and successors can afford. Too high a valuation may hamper their ability to buy into the business. Too low a valuation may leave exiting shareholders without sufficient future cash flow.

Privately owned businesses need to understand how their value drivers can affect both short and long term performance and take the necessary steps to enhance the viability of the business over time to both improve and preserve value.

This may include:

- cleaning up the balance sheet
- ensuring the right management is in place
- trimming expenses
- strengthening internal processes
- introducing new products
- expanding to new markets
- investing in other strategies to drive profits, growth and sales.

In short, business owners need to think about their ownership in the business. There maybe trade offs to make that affect value in that some business owners may prefer to retain family management over more qualified successors, or happiness of workforce decisions that can affect long term value, profitability and viability of the business.

Paul Kane
Grant Thornton New Zealand
Partner, Privately Held Business

Further enquiries, please contact:
T +64 (0)308 2576
E paul.kane@nz.gt.com

Refer to WIN!

WIN a "Samsung 32" HD Smart LED TV

Refer your client to Lock Finance during July and August 2013 and you will receive a "Samsung 32" HD Smart LED Television.

Terms and Conditions apply. Your referral must turn into a new Client for Lock and there are 20 TV's to be won so be in quick to win. Contact Craig Brown today: DDI. 09 375 8502, Mob. 0274 764 297, EMAIL: craigb@lockfinance.co.nz

S.H. Lock (NZ) Limited
Level 14, Tower Centre
45 Queen Street, Auckland 1010
PO Box 106 054
Auckland 1143
Phone: 09 375 8500
Fax: 09 375 8529

0800 ASK LOCK

LOCKFinance