

LOCKED & LOADED

INSIDE:

Ensure you're never left financing late payers

How Lock helped Vispro surge through a cashflow bottleneck

What drives the dollar? Peculiarities explained

ISSUE 1
SEPTEMBER 2007

Watching payment deadlines

Any exporter worth his salt will research potential customers' credit worthiness and get to know them well.

With an unknown, a quote may state that payment must be cleared by the bank before goods are shipped.

Terms of trade are best agreed before you start supplying, advises Wellington lawyer Frank Gradwell, on the New Zealand Trade & Enterprise website.

When the size or destination of the deal puts the risk at a higher level, a contract signed by both parties is necessary.

A one-off deal typically can be based on a standard format, such as the International Chamber of Commerce model international sale contract, Gradwell says.

Understandably, developing countries with less robust commercial and banking systems represent higher risks.

Play it safe

Many small New Zealand companies trade across the Tasman and in the Pacific as they would with a Kiwi customer.

But danger lurks anywhere: a Kiwi firm owed \$400,000-plus by a failed Australian distributor had to rely on

the specifics of its contract and the fact the goods remained the seller's until paid for.

Protecting against the risks of a new country or a larger transaction can occur through insurance. Burke Steel, director of Euler Hermes, says with cover in place, the exporter may find the bank will extend trade finance.

Other trade finance instruments for securing payment are renowned among some exporters for needing vigilance to ensure criteria are met and funds released.

One step up from open account is documentary collection.

The exporter ships the goods; his bank sends the title and other documents to his customer's bank offshore. It releases the documents, allowing the customer to collect the goods, only after payment has been made or promised by an agreed date.

Even more secure still is a letter of credit: the exporter receives payment from the offshore bank once he has presented to his own bank a pre-agreed, specified set of documents. This can also be used to access trade finance.

Courtesy of Exporter Magazine
www.exportermagazine.co.nz

You may not be aware that Lock Finance and sister company Easy Factors International Ltd are both owned by a joint venture between Amalgamated Dairies and Peter Goodfellow.

Having been Director of Easy Factors International Ltd for six years, I have now also been appointed CEO and Director of Lock Finance. I'm also a member of the Lock Finance Credit Committee. This will allow Peter more time to spend on family commitments including his board obligations. He will continue as Chairman of Lock Finance.

My background is in banking and my most recent role was with Easy Factors International. I have also been involved in the engineering and construction

industries, as well as the secondary finance sector. Outside of my Lock Finance responsibilities I am the chairman of North Harbour Rugby and a Director of the Blues.

There has been much publicity regarding finance companies who take deposits from the local market. At Lock Finance we do not take investor money from the public. Lock Finance has an extremely stable long term funding base, from equity and committed banking facilities, which is not affected by any changes in investor or market confidence.

The challenges facing businesses in New Zealand continue with volatile exchange rates and high interest costs. We are committed to providing flexible facilities and recently we launched a revolving credit facility which is designed to assist customers with cash flow planning and management.

We are also streamlining our approval processes for new and existing deals which will help to provide you with more flexibility. And we plan to launch other new products in the next few months.

We are keen to work with you to understand your business. With our complementary products we believe we can provide funding options that will meet your company's ongoing and changing business needs.



Gerard van Tilborg
CEO & Director | Lock Finance

USEFUL LINKS

GENERAL BUSINESS

www.business.govt.nz
Business Information Zone

www.businessnz.org.nz
Business NZ, the voice of business

www.ema.co.nz
The Employers and Manufacturers Association

www.sra.co.nz
Strategic Risk Analysis limited

TEXTILES

www.atito.org.nz
Apparel and Textile Industry Training Organisation

www.textilesnz.org.nz
New Zealand Textile Industry Organisation

EXPORT

www.nztc.com
New Zealand Trade Centre

www.exportnewzealand.org.nz
Export Institute of New Zealand

CASE STUDY

Vispro victorious

Challenge:

How to fund an overnight 30% sales increase

Analysis:

Suppliers had to be paid two months before customer settled

Solution:

Working Capital Advance
– happy supplier
– happy customer
– very happy client

In addition to general workwear/uniforms, Vispro is an importer of specialist protective garments and supplies a number of leading New Zealand companies.

Run by brother and sister team Ross Milligan and Joy MacDougall, the business was formed in 2001. By 2004 the company was largely funded by reinvesting profits back into the business. This comfortably accommodated its level of operating at that time.

And then a major, but welcome event. The company received

an order from a new customer that would immediately increase sales by 30%. Roy was doing his job too well. While this was a reason for celebration, Vispro had to find a way to fund the order as payment from the customer was two months after the company's Asian suppliers had to be paid.

Cash was required upfront to fund the order!

Ross and Joy wanted to keep their properties out of the equation which meant traditional funders were not an option.

Lock Finance turned out to be the solution for Vispro and Vispro turned out to become an ideal client of Lock Finance.

Based on the business' existing assets and income, funding was obtained from Lock Finance with a Working Capital Advance.

So mission accomplished:

- 1 - Stock ordered
- 2 - Product sent to customer
- 3 - Vispro was paid

Vispro are excited about their future, and with Lock Finance as a funding partner look forward to maximizing their business potential.

In recent times, the New Zealand dollar has been at levels that the Bank regard as both **exceptionally high and unjustified** by economic fundamentals. Many businesses would agree.

Grant Spencer
Reserve Bank Deputy Governor

What Drives the Dollar?

If the Reserve Bank is forced to hike the OCR to battle domestic inflation after next year's fiscal stimulus, which is likely, it need not mean the NZD goes higher.

It is commonly held that rising NZ interest rates will result in a higher NZD. This view makes some sense but does not always stack up.

The below chart shows a relatively poor fit between the USD/NZD and a measure of the NZ-US interest rate differential.

The forex traders that chase NZ's higher interest rates make most of their return by holding NZ dollars when the currency appreciates. If they hold NZ dollars when the currency takes a tumble they will experience capital losses that will swamp the benefit of NZ's higher interest rates.

Analysis of what drives the major cycles in the NZD shows that rising NZ interest rates will result in a higher NZD provided NZ economic growth remains robust.

However, if interest rate hikes seriously dent economic growth it will generally result in a lower NZD.

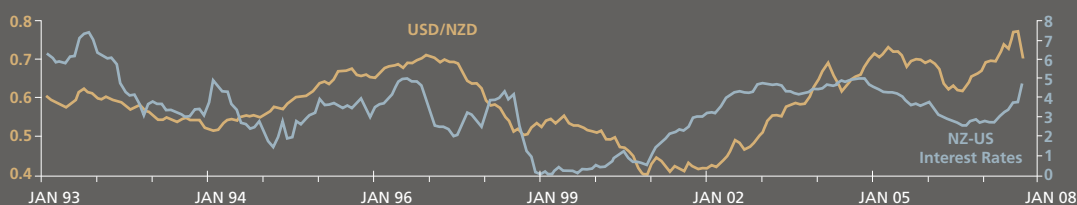
Weak economic data frightens the traders away because it makes them worry about the risk of making capital losses on their NZD holdings.

Shocks, like the unfolding global liquidity shock, can also drive the NZD and the interest rate differential in opposite directions. The chart shows that recent events and the 1997 Asian crisis are examples of the NZD and the interest rate differential moving in opposite directions.

By Rodney Dickens

Managing Director & Chief Research Officer
Strategic Risk Analysis Limited

Visit www.sra.co.nz
to learn more about what drives the NZD.



USD/NZD against NZ/US wholesale interest rates

The yellow line is the USD/NZD.
The blue line is the difference between NZ and US 90-day wholesale interest rates.
The correlation since 1990 is 0.37, which is closer to 0 than a perfect match of 1.0.



“We are delighted that Lock Finance have proven to be excellent to deal with and are serious about working with their introducers to build mutually beneficial and profitable relationships.”

Bruce Yelverton
Director, Yelverton Finance



LOCK FINANCE HAS BECOME THE PROUD SPONSOR OF THE 'LITTLE BLUES RUGBY' FOR THE NEXT TWO SUPER 14 RUGBY SEASONS.

Lock Finance is dedicated to supporting the growth of NZ businesses and is proud to be associated with Little Blues Rugby, which supports the development and growth of today's young rugby players. Our association with Little Blues Rugby will hopefully assist the ongoing development of young players within the region and assist in the future success of both the Blues and New Zealand rugby.

From Andy Dalton, CEO of Auckland Rugby and the Blues:

“We are thrilled to have Lock Finance on board as naming rights sponsor of Little Blues Rugby. Little Blues is a wonderful concept whereby young players have the opportunity to play against a like team on the field at Eden Park as a curtain raiser to a Blues Super 14 game. The response we have had from the clubs has been overwhelming. They are very appreciative of the role Lock Finance has played in making this competition happen.”



WE ARE THE ONLY FINANCE COMPANY WITH A FULLY INTEGRATED MULTI-OPTION FACILITY IN THE NEW ZEALAND MARKET.

This means that we can combine our different products to provide a funding option that will respond to a company's on-going and changing business needs.

Our products can be used to fund sales growth, an acquisition, to consolidate debt, fund trade transactions or to assist with cash flow financing. Or it may be for a new business start-up or a MBO.

Whatever the reason, our products can be used at any point of a company's development – it's better for us to work with a business sooner rather than later.

There is no one product that will meet all of your funding needs. That's why we combine our product range and expertise to meet our clients' requirements. Irrespective of their size and how long they have been in business, we can work with companies to help them realise their goals. Perhaps it is time to consider the funding options for your business or your client's business. If it is, or if you would like more information, call us now.

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