

FEATURING

- > Word from the GM - Craig Brown
- > Sex, movie stars and super highway robbery
- > Receivables reviewed
- > Business mentors putting something back into the community
- > Financial commentary

LockFinance



General Managers Comments

A new calendar year has started. This means the long awaited commencement of the Cricket World Cup and I am enjoying watching good hard fought cricket.

The Black Caps have certainly been raising NZ's expectations due to their strong performance over the past 12 months. I can't help but feel very nervous about our chances.

Personally I think that their achievements over the past 12 months have not been a fluke or just a fleeting improvement. I am sure that their current and future success has been carefully mapped out by the Management, Coach and Captain.

The business analogy would be the appointment of a functional advisory board (NZC board) to ask the hard questions and provide a breadth of experience and knowledge. An astute CEO (Coach Mike Hesson) and then an experienced, dedicated & dynamic Manager (Captain Brendon McCullum) all delivering on a single plan towards an aspirational vision.

After 25 years of dealing with many different businesses in a number of roles, businesses that follow a well-constructed business plan, have experienced governance, which all staff are aware of and contribute to that have tended to be the most successful and profitable.

All sounds very management speak doesn't it?

However I would encourage all businesses to ensure that they have a business plan. Not one that is just put in the bottom drawer, rather one which is reviewed on a regular basis with their advisors and which makes the CEO and management accountable.

The business landscape for 2015 has started to be shaped by key, local issues such as the drought, the never ending Auckland property market and CHEAP Petrol. And hanging over us all is Greece and the Eurozone, Ukraine vs Russia and China's slowing growth.

What can we do about it? Not much directly as these things are generally out of our direct control. However like any sporting team as business owners / managers / advisors we can focus on doing our core roles really well and if you take care of the basics then some of the bigger issues may not seem so large.

The team at Lock Finance wish you all well for the 2015 year. Also do not forget to get behind your chosen Super 15 Team as my team, The Chiefs are looking good so watch out.

Craig Brown
General Manager Lending



Sex, movie stars and super highway robbery

There is nothing quite like illicit nude photos of movie stars to draw the media's attention.

As we've seen recently with the internet hacking which exposed private parts of the anatomy of super stars like Nicole Kidman for all to see, when its combined with exposure of the wheeling's and dealings of the corporate giants that control the industry, and in a very real sense influence the hearts and minds of the people everywhere, it becomes gripping viewing.

Then when it's linked to political espionage and those "evil" North Koreans, who no one can really understand but certainly appear to be very ominous, the story becomes magnetic.

Even back home in little New Zealand we've seen hacking lead to Nicky Hagar's book "Dirty Politics" which over-night dominated the recent election campaign focus when it exposed dealings between politicians from the Prime Minister and Minister of Justice down, corporate big businessmen of questionable reputation and bloggers going way beyond what we used to hold as acceptable media practice.

And of course the whole saga surrounding former German hacker Kim Dotcom, his international whistle blowing mates Edward Snowden and Julianne Assange, the CIA, the international Five Fingers spy network we are part of but knew nothing about, and those self-same movie studio's brought home that we are not on the fringes of the new global village but in ways at its very heart.

It portrayed a world which many have struggled to comprehend let alone accept and it raised questions about our own vulnerability to cyber crime. If Sony Pictures could be hacked and if the Prime

Minister's communications could be so easily broken into what of our own secret information treasure troves both business and personal? Our money, our intellectual property, our private lives - what chance do we have of protecting them in this new cyber age?

All of a sudden the stories of super viruses and targeted attacks were no longer on our doorstep they were in our boardroom, our living room and even the bedroom door was ajar.

And if this wasn't hard enough to get our heads around another challenge was upon us. A meteoric change reshaping the very way the internet operates was here with the hard drive boxes and servers where we stored our information being made obsolete by a far more efficient and flexible system which holds the information in cyber space, the so-called Cloud.

Before our eyes the hard-drives and servers we've invested in are fast becoming as obsolete as the floppy disks at the back of the office cupboard. An era where work colleagues, for example, can be connected and work together in real time regardless of physical location is not a vision for the future, it is here now.

If we've struggled to come to grips with safety and security issues of information stored in the old way getting our heads around The Cloud presents a whole new challenge with it being almost natural to think if we were vulnerable under a system where we could see and touch the place where our information was stored surely a system where it's out there in space must be even more at risk.



However the truth is quite the reverse. With the Cloud system using encryption and coding techniques our information is now held in fragmented parts which make no sense on their own and hence are of no appeal to the super highwaymen hacker of the past.

What's more - it is more efficient and with that can come economic benefits as financial considerations

shift from capital to cash flow issues. The implications are not just in terms of the technology itself and the gains from improved operating systems but the accounting and associated taxation management issues are huge as the emphasis shifts from hardware to software.

Big businesses already have professionals handling the fundamental change in business operation sweeping the world. The challenge for medium and small size businesses is to grab the huge opportunity to be smarter and more efficient than competitors or fall by the wayside. The lesson of history is that those who adopt new and more efficient technologies can fast triumph over those locked into old technologies and nowhere is this more true than in the communications field. Its seen wars won and lost. Business empires prosper and fail. In fact civilizations come and go.

But there is another clear lesson here for the business looking at the Cloud. Get someone who knows what they are doing to set up and manage your new system because it doesn't lend itself to 'Heath Robinson" short-cuts and amateur "experts" who are anything but.

In fact a recent survey by international computing firm Gartner found that 95 percent of private cloud systems failed for reasons summed up in the following diagram:

Atmospheric is a New Zealand based business which specialises in the provision of Cloud technology solutions to SMB's. Formerly known as Network Agents it has recently restructured becoming fully focused around The Cloud and is one of only five companies who are currently members of the Microsoft Cloud Solution Provider program that is being rolled out globally. In addition to this Atmospheric have core Microsoft competencies in Cloud Productivity as well as Small &

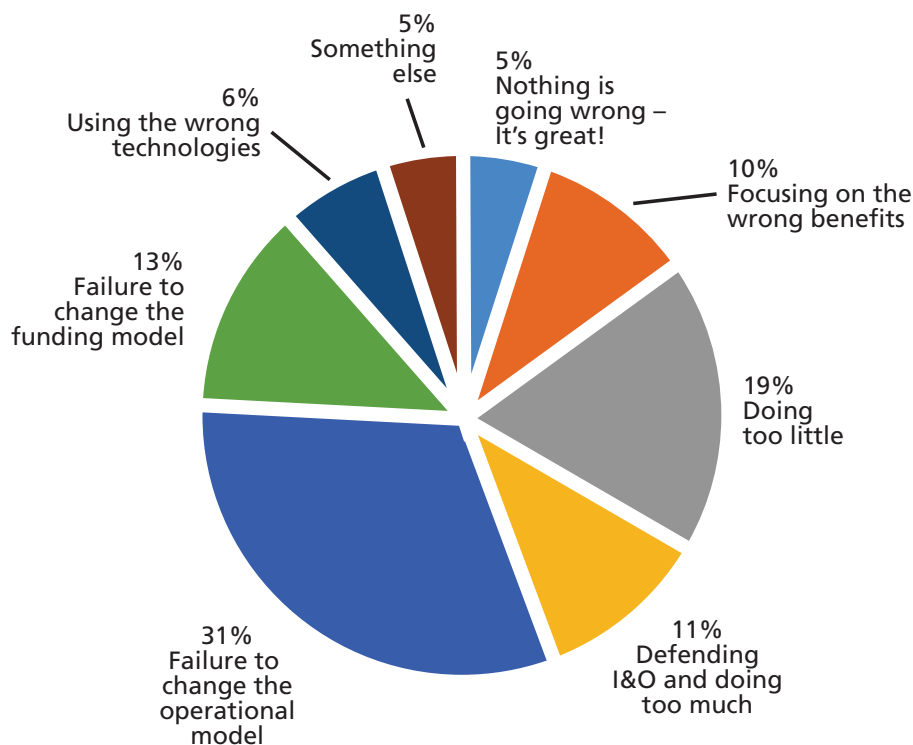
Midmarket Cloud Solutions, ensuring they are at the forefront of deploying and supporting Microsoft Office 365 and Cloud Solutions to New Zealand SMB's.

Writer Peter Verschaffelt is a former business and financial journalist and communications advisor. His early work with online computing systems saw him managing communication for the introduction of EFTPOS to New Zealand by the New Zealand Bankers Association.

He was an advisor to the New Zealand Internet Society when global protocols for the web were put in place and he has worked as a communications consultant for a number of government ministries and corporations including Microsoft, IBM and Sperry Systems.



Content provided by
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Receivables reviewed

It is commonly acknowledged that facilities based on funding the receivables ledger (factoring and debtor finance), are well suited to funding a start-up businesses. An aspect which is less well known, are other areas where receivables funding can be very useful.

1. Buying a business



When buying an existing business it can be very difficult to obtain finance to meet the purchase price, unless the purchaser has ample equity. Some businesses will have a lot of fixed assets which the buyer can use as security. The service type businesses typically have hardly any fixed assets, but with bulk of assets being receivables.

In either of these scenarios, Lock Finance has assisted clients in raising finance by leveraging against the receivables ledger. In some instances the necessary funding can be raised in conjunction with a main stream bank e.g. bank provides security backed lending, and balance of purchase price is provided using a receivables based working capital facility.

Even if the historical receivables are not included in the purchase price, Lock Finance can provide temporary funding based on expected invoicing, which temporary facility can then be repaid from a factoring or debtor finance facility once the first one or two months invoicing kicks in.

2. Insufficient banking facilities

At times, a bank may not be in a position to provide sufficient facilities to meet a client's needs. This usually comes to light when there are regular unauthorised excesses, adding additional pressure to the business owner. The most common reasons for the bank not being in a position to provide further assistance can be varied:

- client not being in a position to provide additional security
- business financial standing – insufficient profitability or low balance sheet equity
- perceived as a high risk industry i.e. fashion or printing

In all of these cases, Lock Finance is potentially able to assist by providing a facility against receivables ledger.

3. Rapid growth experienced

Much has been written about a business that experiences rapid growth, and how that growth is funded. Banks usually get nervous with rapid growth, and the phrase “overtrading” is bandied about.

Rapid growth is viewed with great excitement by Lock Finance. The beauty of a receivables based facility, is that the more rapid the growth (and associated invoicing), the greater the facility we are able to provide to facilitate our client's growth, and therefore the more profitable our client's business.

If any of these situations sound familiar, let us know and we would be happy to have a confidential discussion.

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Business mentors putting something back into the community



Over the past two decades becoming a volunteer business mentor, so that you can put something back into the local economy and community has become something that many successful entrepreneurs and business people have embraced. Getting on for 2,000 men and women across the country do just

that. These people get a real buzz from helping people move forwards with their businesses. Often, all small business owners need is a fresh perspective from someone independent of the company. That's one of the unique benefits of the Business Mentors New Zealand programme – experienced business people sharing what they've learned with up and coming companies, freely on a voluntary basis. There is no cost other than a modest registration fee to cover administrative set up.

Our team of highly knowledgeable volunteer mentors, all of whom are willing to share their skills, expertise and experience with small and medium sized business owners, are a unique resource. Most mentors are either not available on a commercial basis or would be far too expensive to retain for an SME. It's another of the unique aspects of the Business Mentors programme – access to unrivalled expertise not available anywhere else in New Zealand and more than 70,000 companies have used the service to date.

Even though many volunteer mentors have a busy commercial life they enjoy a special satisfaction in getting stuck into my volunteer mentoring role. One thing that distinguishes the client companies is that they are extremely motivated and are excited about taking their businesses to the next stage. They are very open to new ideas on how to maximise their business's potential which makes for a great working relationship.

Mentors may spend between an hour and four hours a month with each client. Each mentor is different in how much time they spend with their clients but every one of them will use their own extensive experience in marketing, finance and business strategy to provide a valuable outside perspective, offer advice on specific problems and help each company

pinpoint potential areas for growth. The long, in depth experience common to Business Mentors New Zealand mentors means they are able to help business owners avoid some common pitfalls and mistakes.

One thing a lot of clients have issues with is business planning. Often, a business owner will have spent so many hours working in the business, focusing on the day-to-day tasks, that they won't have taken the time to step back and think about where they're going. Having someone come in from outside the company enables them to see their business from a different point of view. They can take a moment to consider what they want to achieve and how they're going to get there.

It's also important that the plan is written down on paper and updated regularly. Many business owners make the mistake of keeping any business strategy they might have in their head. Having it in a solid form keeps people focused.

Working for a wide range of business sectors in New Zealand and abroad over the past two decades Business Mentors New Zealand has learned that planning ahead is something many businesses tend to overlook. They put off even attempting it because they just don't know where to start. However, it's important to have something in place, even if it's the most basic option of a three or four page business plan.

Despite juggling a number of work commitments along with the mentoring, volunteer mentors get great enjoyment out of helping their clients succeed and mentoring is recommended to anyone who is knowledgeable in business, has empathy for others and a willingness to help others do well.

The Business Mentors service is a great resource for smaller enterprises and our mentors are proud to be involved and find it a hugely constructive learning experience, for both themselves and their clients which transfers into, enhances and informs my commercial activities.

If any of your clients would like to apply for a business mentor or if you are interested in becoming a mentor for Business Mentors New Zealand, visit www.businessmentors.org.nz – where you can apply online to be part of the programme. The site provides information on the programme, case studies and has an exclusive support area for mentors.

Ray Schofield
CEO Business Mentors New Zealand

Financial commentary



Despite low inflation, OCR cuts are unlikely. Economic growth prospects look quite good, aided by falling fixed mortgage rates. This implies the best indicator of medium-term inflation prospects will head into the danger zone this year.

Inflation has fallen below the bottom of the Reserve Bank's 1-3% target range, sparking some speculation that the OCR may be cut. However, the indicator most relevant to medium-term inflation prospects may start to justify OCR hikes later this year.

Inflation is extremely volatile in NZ because it is impacted hugely by movements in the exchange rate, while petrol and primary product prices can also have significant impacts. All three have contributed to what is likely to be temporarily low inflation.

The single largest cost of production in modern economies is labour costs. This puts the labour market at the heart of medium-term inflation prospects. The unemployment rate is the best measure of whether the labour market poses a threat to medium-term inflation prospects.

The historical experience points to approximately 5.5% being the unemployment rate that is consistent with keeping inflation at around the midpoint of the Reserve Bank's 1-3% target range on average over the medium-term. Governor Wheeler has stated he is targeting the midpoint.

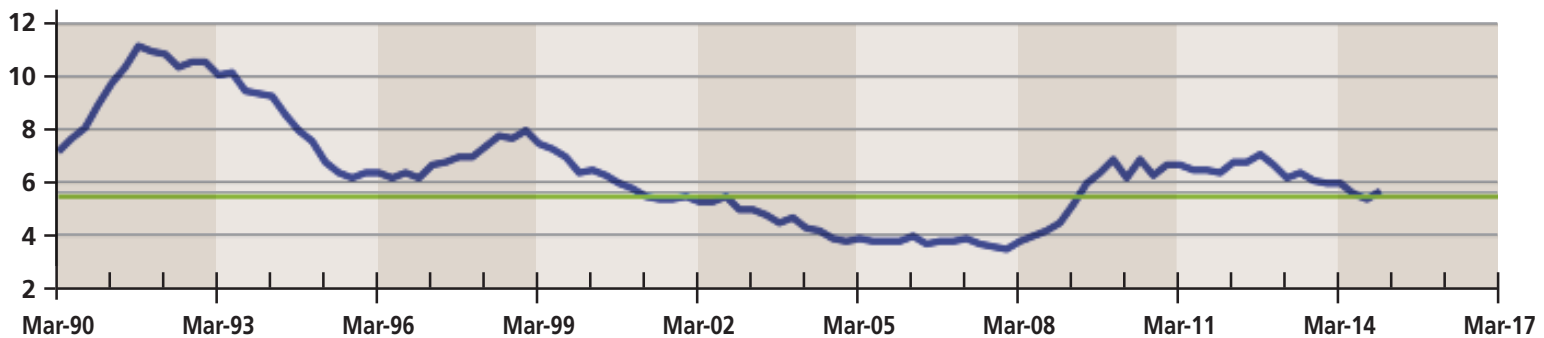
If the unemployment rate is above the level consistent with keeping inflation low, on average over the medium-term, the Reserve Bank can promote growth with below average interest rates. This has been the case for most of the period since the financial crisis struck in 2008 (see the chart).

At 5.7% in the December quarter the unemployment rate suggests there is little spare capacity in the labour market. Economic growth prospects look quite good for this year, so I expect the unemployment rate to fall below 5% by early-2016.

To put this in context, Governor Bollard made the mistake of allowing the unemployment rate to fall to a low of 3.5% in the mid-2000s, which fuelled a wage-price spiral that required 13 OCR hikes to tame. OCR hikes seem unlikely this year, but if the unemployment rate continues to fall, there is a risk of hikes in 2016.

Written by Rodney Dickens.

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The chart shows the unemployment rate (blue line) and my estimate of the rate consistent with low inflation (green line).

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