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LockFinance



General Managers Comments

Hasn't this year gone fast? We are now well into the second half of the calendar year and speeding towards Christmas.

There has been so much happening in the local

economy such as the exchange rate, milk prices, housing market, interest rates and also internationally such as the growing threat of ISIS, the Greek Financial Crisis and China's market in general. For me to pick a topic that I can briefly discuss and to try to tie this into how it all relates to your business and your client's businesses is too difficult.

I would however like to say a big thank you to all of those people that have referred business to us over the past 12 months. Whether this has eventuated into actual business for us or not we do appreciate your efforts in trying to find solutions for any cashflow requirements your clients may have had.

I do hope that you continue to support Lock Finance. As the economy looks like it may be about to slow down somewhat with some of the above issues and related business confidence, more businesses may not be in a position to obtain the prime bank funding they would like which may create additional opportunities for Lock Finance to assist.

So to kick off the 2016 financial year (when my expense budget is fresh) I would like to take this opportunity to offer an Air New Zealand 2 Night Deluxe Mystery Break for 2 for the first two referrals that are made to Lock Finance that converts into a new client for Lock Finance and settles before 30 August 2015.

Craig Brown
General Manager Lending



Fit for Purpose Finance

By Glen Baker

In 2015 business owners are spoilt for choice when it comes to finance options to help bolster cashflow and instill growth. Debtor financing and invoice financing especially have now become mainstream solutions.

Business finance has made giant strides since the days when owners went cap in hand to the bank manager for a loan. I recall my father putting on a tie and jacket in the late 60s to nervously meet with the manager of the local Bank of New Zealand to extend the overdraft on his dairy-grocery business. Who would have thought that some 45 years later, there would be such a plethora of finance options available to business owners looking to grow their business or smooth the cashflow.

We've since discovered the power of balance sheet assets – money owed from the sale of goods or services that can be accessed virtually straight away, thanks to the services of a growing number of finance providers.

We are of course talking about the various forms of factoring – and debtor or invoice financing – finance options that have slowly but surely been gaining widespread acceptance in New Zealand's business community over the past decade or two. I say 'slowly' because this form of finance was universally accepted overseas long before people got the hang of it here.

And yet there is still some confusion surrounding the different options – so an explanation is called for. Perhaps the best explanation is one from the Debtor and Invoice Finance Association of Australia and New Zealand, which reads: "Factoring and discounting, also known as cashflow or debtor finance, are among the most powerful financial tools available to business. Invoice Discounting simply involves a business turning its unpaid invoices into cash.

Factoring involves the sale of a business's unpaid invoices as with discounting, but in addition the sales accounting functions may be provided by the factor, who manages the sales ledger and collection of accounts."

Of course, the big deal about these alternatives to bank finance, and one that Craig Brown, General Manager Lending, at Lock Finance thinks should be shouted from the rooftops, is that no property is required as security for these working capital facilities. It is secured through the business's own asset base – the debtors ledger, or individual invoices – depending on which option you go for. That means the family home is safe.

"Why continue to fund plant and machinery, vehicles and Cashflow from bricks and mortar?" asks Brown. "Use a lender that is a specialist in that asset. Will the banks lend up to 80 to 90 percent of the value of a receivables ledger? Unlikely!"

Brown wonders what will happen in the future when younger business owners look to obtain business finance when they can't even afford to buy a house to use for security.

"I know a 27 year old who started his own business which is now only 12 months old but turning over \$400k and looking to double this year. A bank may only provide a small "unsecured" \$20k overdraft. He has no property to leverage against, so how does he grow his business? The answer is a Cashflow facility where he can leverage against his business debtors".

Brown believes that reduced home ownership will mean that more and more business owners, especially at the SME level, will need to look at other funding options.

What about the cost?

Unfortunately there can be confusion surrounding the true cost of these alternative funding options, and understandably cost still appears to be the main driver when looking for a cashflow facility. "Cashflow facilities secured by property, from the likes of banks, do attract a cheaper rate," explains Brown. "However, when dealing with a reputable provider you'll see that the costs may not be as much as you're initially led to believe. There is still a lot of misinformation about this.



"Would you pay more to access a higher level of cash? If a bank is limiting your overdraft limit then what is the opportunity cost? If you look to sell a shareholding to just bring in more cash to assist with cashflow, what is the cost of losing a share in your business? "Why offer a ten percent discount to clients to get debtors to pay quicker when the cost of a cashflow facility may only be two to three percent?" he asks. "So you tell me, what is expensive?"

With finance solutions as diverse as these on the market, business owners wanting to expand their enterprises have simply never had it so good. But always remember that the best finance solution will come from working with an expert who takes the time to understand your business. Something I'm sure that rarely happened back in the day when business owners like my Dad went down on bended knee before the almighty bank manager.

Glenn Baker

Editor of NZ Business

Adapted from NZB July 2015

newflor
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To whom it may concern

In 2012, Locks provided Newflor Industries Ltd sufficient finance to allow it to purchase the Newflor business from the previous owner, and working capital facilities to finance its operation.

Since then, Locks have continued to assist Newflor with its ongoing financing requirements, enabling us to expand our product ranges into the New Zealand flooring market and significantly increase our profitability as a result.

We have enjoyed excellent service, both with management and back office support staff during our time with Lock's, and would have no hesitation in recommending Locks to any business seeking working capital finance.

I would like to take this opportunity to thank the Team at Locks for their support during the last 3 years, and wish them and the company well for the future.



Vincent Papesch
Managing Director

Capital Raisings: Not just another day in the office

Heidi Axtell, Managing Principal, & Xavier Marguinaud, Senior Risk Adviser, Marsh

When companies and directors are considering embarking on capital raising activity, there is a lot to consider and manage: strategy; investor presentations; lawyers drafting the Information Memorandum; tax and legal advisors conducting due diligence where required. Such activity must be carefully orchestrated and managed for a transaction to be successful. Insurance may not be on the agenda until much later in the process, if on the agenda at all. However, there are real dangers in neglecting to factor in insurance review as part of the process. Below we cover at a very high level some important points to be aware of to undertake a successful and commercially prudent capital raising.

Raising capital from the public: just “another day in the office” from a risk perspective?

No, even for those who do it on a regular basis. Raising capital poses increased and/or new liability risks that both the company and its directors should be aware of in order to consider appropriate risk mitigation and/or risk transfer mechanisms, where appropriate. From an insurance point of view, raising capital is far from a ‘business as usual’ corporate risk.

New Zealand’s securities law is in a period of transition which is altering the landscape of risk. Although New Zealand is not yet at the levels of USA and Australia (where regulatory action and security class action claims are commonplace) the overhaul of our securities law signals a significant shift. The Financial Markets Authority has been touted as “increasingly prepared to flex its regulatory muscles”¹. The steady stream of investigations and prosecutions we have seen in the past four years since it was established in 2011 prove this to be true.

We already have D&O: isn’t that enough?

Relying on the company’s existing liability programme to cater to the risks associated with a capital raising is arguably naïve at best and poor governance at worst. Most D&O policies exclude cover for claims related to share issuances and/or claims related to statements contained in prospectuses or documents relied on for raising capital. Further, changes to the company’s capital structure in the lead up to or as a result of the capital raising

transaction can trigger a common condition that removes cover for conduct after the change in capital structure.

What are some examples of events following a capital raising that might trigger legal claims?

- Earnings fail to meet projections contained in the formal offer documents (e.g. a prospectus) or roadshow materials prepared for potential shareholders
- Accounting restatements closely following the capital raising
- Inadequate disclosure of M&A (merger and acquisition) activity prior to the offer

Who are some of the potential claimants?

- Regulators, e.g. the FMA, NZX & overseas regulators where business might be operating outside New Zealand
- Shareholders
- Counterparties, e.g. underwriters, lead managers

What are the insurance solutions for the legal liability risks arising from capital raising activities involving offers to the public?

1. Extending an existing Directors and Officers Liability (D&O) insurance programme; or
2. Purchasing a special Public Offering of Securities stand alone, multi-year insurance policy (“POSI”)

Which option is better?

A POSI preserves the D&O limit: D&O policies cover claims arising out of the “day to day” activities of a company whilst a POSI policy is specific to a particular capital raising. Our typical recommendation is to procure a POSI in order to preserve the D&O limit for the day to day corporate risks.

A POSI is more attractive from a budgeting perspective. D&O policy costs are inherently uncertain as cover is normally arranged on a year-by-year basis with pricing open to fluctuations in the risk. A POSI is generally a multi-year policy that is paid for by a one-off premium, thus a more “set and forget” solution for capital raising risks.



1. Chapman Tripp’s Brief Counsel newsletter; 8 June 2015; ‘FMA steps up enforcement activity’.

How much does insurance for capital raising cost?

It depends: there is no standard "market rate" to gauge premiums as Insurers will assess the company profile; prospectus/Information Memorandum; limits sought etc. An experienced POSI broker can provide (on an anonymous basis) benchmarking information based on previous covers they have arranged.

Important things to consider regarding insurance for capital raising activities

- Get good advice and do it early. Timing is crucial for optimum POSI placement in terms of pricing and coverage, as brokers need time to gather information and Insurers need time to properly assess. For best results, engage with an experienced liability broker as soon as start engaging with your lawyers.

- Ask your broker about their particular experience. Very few insurance brokers (even within individual firms) are highly experienced with this kind of cover.
- Be very wary of making decisions based on price alone. Policy wordings vary significantly from insurer to insurer. Insurers do not write risk associated with capital raisings lightly and a price that is wildly out of step with other quotations may mask coverage inadequacies. Insurers commonly only price what they are asked for and this makes the expertise of your insurance broker critical.

For more information on capital raising risks and insurance please contact Heidi Axtell (heidi.axtell@marsh.com) or Xavier Marguinaud (xavier.marguinaud@marsh.com).

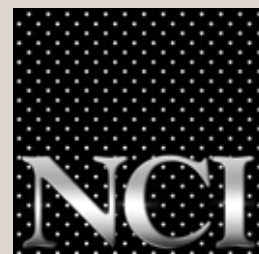


Trade Credit Insurance

Trade Credit Insurance or Bad Debt Insurance as it is sometimes referred to is a product that is very much in demand presently. The reason for this demand is the perception by many that both the local economy and those of our trading partners are in for a tough time over the next eighteen months. The signs are pretty obvious to be honest; here we have dairy prices that may remain low until 2018, the construction and contracting industries coming to the end of a growth cycle and despite an improved currency situation a fall in demand for our exports due to falling business confidence in our major markets. Credit insurers globally anticipate a surge in company failures and as is always the case, many of them will never be seen by suppliers until it is too late. In the case of almost 90% of company failures there are no obvious warning signs, often a slight hiccup is identified after the event that could or should have raised a flag but in the normal course of business these things are usually overlooked.

And this is the case for credit insurance, whilst it performs as expected in paying out in the event of a non-payment, what it also does is provide an independent monitoring of your debtors, collating information from a wide variety of sources and forewarning you when irregularities are identified. Let us assume that you selling to buyer X, the insurer will often have other suppliers dealing with the same company and often from a range of different countries. The insurers operating here are all part of large multinationals and devote enormous resources to their information databases. Buyer X may be obtaining product from Europe/Asia/USA in addition to yourself and if they slow pay any other supplier or change payment terms then you will often receive notification of this. This sort of information can often prove to be invaluable.

National Credit Insurance (Brokers) NZ Ltd is a specialist credit insurance broker and has access to all of the major underwriters of this business. To find out more about how this product may help you please contact Charles Sampson, (charles.sampson@ncinz.co.nz , Tel 09 524 9358)



Starting At The Very Beginning

By Peter Boyes

Business mentoring is a long established volunteer-based programme in New Zealand. Since 1991 around 70,000 small to medium sized businesses have taken advantage of Business Mentoring New Zealand's (BMNZ) unique network of business expertise in New Zealand and over 1,000 businesses across 10 Pacific Islands have been helped since 2010. The not for profit organisation has about 2,000 experienced volunteer business mentors and business trainers on its books, many with invaluable industry specific expertise.

But until recently, the criteria for business mentoring required an applicant to be currently trading, which ruled out start-ups from the process. That has now changed with the introduction of a new programme, which is designed for people who have a business idea and sometimes not a lot more.

As BMNZ's chief executive, Ray Schofield explains: 'Where do you go if you are a budding entrepreneur? What do you do if you've got a great business idea, want to know how to turn it into a fully fledged business, and don't know where to start? What do you do if you need a business plan for funding, and need confidential one to one feedback?'

The BMNZ startup programme has been designed for people who want to explore their business idea in a confidential environment, want to know where to start and who to talk to. It aims to help them put the right foundations in place for their business through planning, preparing the necessary information and documents to present to potential investors to make the idea float and enable people to understand their legal obligations.

Ray Schofield adds: 'The programme will help identify easily avoidable mistakes and provide much needed motivation, confidence and focus at a crucial point in setting up a business. Start-ups require a different approach from a business that is already trading - and we at Business Mentors understand this. For that reason, our Start-up Business Mentoring Programme differs from our standard mentoring offering. The Start-up programme provides six months of accelerated mentoring for a \$300 + gst registration fee, which helps with the cost of administration. Up to March, with just four months since we launched this programme, we have helped over 100 new businesses find their way.'

Mentors with experience in business start-ups offer guidance, act as a sounding board, test the new business owners' thinking, and support them in the development of a robust business plan.

Nick Sterling has been a business mentor for six years and was involved with the Pacific mentoring programme before he got involved with the Start-up initiative.

He says: 'I have done quite a bit of research on New Zealand and international businesses looking at the reasons for start-up failures. Depending on the research studies conducted by economic development agencies and business schools across most industry sectors, both in NZ and internationally, the Start-up failure rate is far too high, well-over 50% on average, and as high as 80% in some that do not make it past the two to three year period. It is a very high risk venture wherever one chooses to start a new business, and most entrepreneurs starting out fail to fully appreciate this until it is too late.'

Nick points out: 'Most entrepreneurs start their own businesses to provide for their families, to build security for their retirement, to secure the future of their children, to have a better lifestyle and to make a greater contribution to their world. They have the deep inner passion and conviction to believe that they can do it. They believe in it so strongly that they either spend their redundancy money, their savings, take loans from friends and family, re-mortgage their homes, get seed funding, or a mixture of these options, to fund that dream.'

'But I have found that many entrepreneurs, although very passionate and professional, have serious capability gaps to bridge in order to even undertake the business planning process properly.'

He explains that the ability to consistently focus effort and time on the new business is also essential in both adapting to a new process as a new discipline and in producing quality deliverables in a timely manner.

Nick adds: 'Planning for and starting a business is said to be arguably harder than doing an MBA. The amount of time and effort required, in addition to the other existing commitments like work, family, leisure and other time constraints, cannot be realistically underestimated. There is also a serious risk of burn-out to be aware of.'

- BMNZ's research has identified a number of other common factors involved in Start-Up Failure. These include
- Knowledge, experience and general capability gaps in business and Management
- Planning, launching, managing, improving and growing a business, year-on-year, every year

- The need to source specialised skills and resources for specific functions within the business
- Not enough capital to support the business set-up, launch and get to break-even point
- Too much pride – and to realise that it is better to fail early, at minimal cost and impact then start again wiser, than to persist with a losing battle and fall harder down the line
- Going into business for the wrong reasons
- Wrong advice from friends and family
- Design too many concepts without proper commercial and market feasibility
- Lack of experience to negotiate with and to manage suppliers
- No knowledge of pricing and / or emotional pricing

Nick met his first Start up client fortnightly at a 24-hr MacDonald's from 6 – 9pm, covering half business training and half business planning. He has found that most Start-Ups hit a big 'realisation brick wall' within a couple of weeks after the initial planning meeting when it dawns on them how much they do not know, how much they need to learn and apply, how much time and effort they actually need to invest in the business planning process, how much professional development they are required to do to get themselves to the skills standard needed, how much money they need to set-up and launch, how uncertain the business success still is despite all this.

He says: 'It is useful for them to work on the 'Why I want to start my own business' element at this point, where the passion they feel for their business concept aligns with the reality of what is required to properly validate and to make the business concept successful (or not).

'Getting the business owner to be commercially aware can prove to be a lengthy exercise and a tough mind-set shift to achieve. I support the client through some business training and professional development through online and reference material which helps achieve this as well as building the capability required to conduct the planning process and eventually manage a business in real life.'

Nick explains there is a range of benefits from the business planning process. The business plan produced can assist the entrepreneur in exploring seed funding as it provides a solid basis for the business concept to be comprehensively analysed.

Even if the initial concept is found to be commercially unviable, this is discovered early, at minimal cost, effort and risk. As a result of the market and financial feasibility studies, the original business concept may well alter to a more commercially viable one that has a better chance to succeed.

He says: 'The Start-Up Programme supports entrepreneurs to learn about a professional business planning process, to enhance their existing business skills and management experience and for them to acquire new skills in all areas of their business, enabling them to be in a much better position to take their business off the ground and to make it success on-going.'

Ray Schofield is pleased with the early results of the programme: 'Few other organisations in NZ, even in the private sector, come close to what BMNZ can offer in terms of support like this. For an entrepreneur looking at starting a new business, this should provide a degree of confidence and trust to the level of business and management support that they will receive through this Programme.

'The Startup programme supports the entrepreneur to do all the required planning, identify and resolve most of the risks that would cause the business to potentially fail, before the business 'goes live. The actual professional services costs to the business owner if the same support services were to be sourced privately would be in the order of tens of thousands of dollars over the lifetime of the business mentoring support offered by BMNZ.'

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