

LOCKED & LOADED

Funding ways to grow your business

Finance products which utilise a company's debtors as security such as Debtor Finance and Factoring are excellent ways to fund a business with a strong growth story.

In New Zealand, this market has yet to take full flight.

The slow up-take in New Zealand can be attributed to the fact that many companies still rely on the traditional forms of asset-based finance such as overdrafts or term loans, and are simply unaware of the alternatives according to Simon Thompson, General Manager Operations at Lock Finance.

Across the Tasman, for instance, the factoring market has grown from AUD\$5 billion to AUD\$50 billion in the last 10 years. Factoring as a form of business finance is thousands of years old.

Instant cash

Debtor Finance and Factoring are forms of finance which allow business owners to use their accounts receivables or invoices to gain quick access to cashflow.

Effectively turning their sales into cash.

Debtor Finance is a confidential form of factoring with the end user unaware that a finance company is involved, whilst Factoring allows the finance company to fully manage the collection process.

On a company's balance sheet, unpaid invoices are viewed as debtors. Using these products a business can typically receive immediate access to cash of up to 80% (or 90% in some cases), of the face value of their debtors alleviating a lot of cashflow pressures from waiting to be paid.

The Debtor Finance product is perfect for more established companies who are experiencing growth or seasonal constraints and want to maximize the amount of cash they can borrow against their business assets.

The Factoring product is ideal for the smaller less established business that requires immediate access and can benefit from outsourcing the day-to-day

management of the debtors ledger, so precious time is not wasted chasing customer payments.

In a recent example, Lock Finance was able to help a company in the recruitment sector access critical cashflow through the Debtor Finance product.

"This mid-sized company had contracted staff out whom they had to pay weekly while the hiring party (client to the personnel company) only paid monthly. We were able to provide immediate cashflow of up to 80% against their invoices" Thompson says.

High growth

"Typically, clients come to us when their traditional funders can't accommodate funding the growth of their business due

INSIDE:

How to gain quick access to cashflow to grow your business

How Lock helped Company Health Services with their expansion plans

The labour market and how it impacts on the economy

This has certainly been an interesting year for finance companies operating in New Zealand. Let me reaffirm that Lock Finance operates without taking deposits from the public. We are insulated, to some extent, from the problems in funding faced by the investment market. Our strong shareholder commitment, strong governance and credit structures put us in a favourable position to grow.

A business confidence survey done by Canterbury Manufacturers' Association (CMA) for September (released in Oct) indicated the business climate did not deteriorate.

However, our clients continue to face mixed business operating conditions, and we believe there will continue to be sectorial challenges.

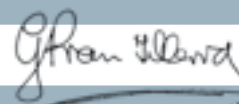
Without a doubt, cash is king and the tight financial liquidity makes it fundamentally difficult for businesses. Local manufacturers continue to face cost pressures and are looking to cut costs, improve productivity or, for some, to relocate.

Despite the challenging market, we continue to explore ways to meet our customers' needs. Our programme to develop a wider product range will continue in the New Year. We currently provide Working Capital Finance, Trade Finance, Debtor Finance and Factoring.

Our focus continues to be: to deliver innovative solutions to help clients manage and expand their business.

Since joining Lock Finance I have enjoyed the added challenges and responsibilities. I have also enjoyed meeting some clients and am looking forward to meeting more of you in the future.

I wish you all a Merry Christmas and a prosperous New Year.



Gerard van Tilborg
CEO & Director, Lock Finance

USEFUL LINKS

GENERAL BUSINESS

www.osh.dol.govt.nz
OSH New Zealand

www.med.govt.nz
Ministry of Economic Development

www.kiwisaver.govt.nz
All about KiwiSaver

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



Flying high: Company Health Services

Challenge:

Financing expansion plan.

Situation:

Company was in the midst of expansion, and needed to finish refurbishment of a property. It needed longer-term finance, and short-term credit to meet development needs and to pursue growth plans.

Solution:

Term loan to complete property redevelopment and Revolving credit facilities.

The huge need for occupational health and safety services has given Company Health Services (CHS) a big business boost, with the company pursuing aggressive growth plans. It has ambitions to expand into Auckland in the near future.

CHS now has an office in Christchurch and Whangerau. "We are looking to expand further," says Julie Dunstan, client manager at CHS.

The company was founded in 2000 by Dr Jim McLeod, Karen Heffey and Gavin Austin. Austin says the company is looking to grow by 300% over the next 12 months.

Workplace safety is CHS' expertise. Among others, CHS helps companies explore ways to manage absenteeism, audit workplace safety, identify

hazards; handle stress management, and conduct alcohol/drug testing. Dunstan says there is a huge need in the market for occupational health and safety services, especially a focus on wellness programmes. Employee drug and alcohol testing is also in demand.

CHS engaged Lock Finance early in its business development phase to see how its needs could be met. "Our directors went through the business to see where we wanted to go, and they (Lock Finance) came back with their proposals to help us," Dunstan says.

Austin adds: "It makes a huge difference to us, to have our finance company's support. They are easy to work with, and really flexible – which really helped."

Lock Finance was able to provide a flexible and innovative solution to CHS. It provided a term loan, two revolving credit facilities to help CHS complete the refurbishment of its property in Whangerau. One of the revolving credit facilities would provide headroom for CHR to take on growth plans, according to Lock Finance's account manager John Blackmore.

With Lock Finance's flexible solutions, CHS is now able to focus on growing its business.

Take CHS' online health and safety test at <http://www.chsl.co.nz/freetest.htm> to see if your workplace meets safety standards.

“Not only do you have to become a great place to work but you've got all these other intangibles that people are starting to use to differentiate one employer from the next employer.”

Peter Sheahan

Author of Flipside; upside down thinking

How does the Labour market influence the economy?

There may never have been such an array of divergent factors impacting on the economy and on the markets, but there is one factor that warrants star billing.

The labour market is at the heart of the economy. It is where the major source of income that fuels consumer spending is generated. While labour costs are the single largest cost for most firms and are at the core of the domestic inflation problem the RBNZ faces.

Thanks to Governor Bollard's "go for growth" experiment since 2002, New Zealand has the lowest unemployment rate since 1982 and one of the tightest labour markets in the world (see the chart).

The RBNZ and the economic forecasters keep predicting an imminent increase in the unemployment rate that will result in lower labour cost inflation, but these forecasts are based on wishful thinking.

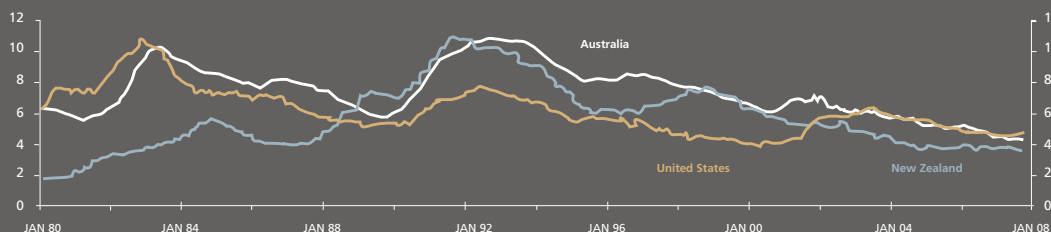
Elevated wage and salary increases, the much higher dairy payout and a massive fiscal stimulus will underwrite around an average rate of economic growth next year, so the unemployment rate won't rise much any time soon.

History has taught us that the only way to solve a labour cost inflation problem is to whack the economy around the head with sufficiently high interest rates that the unemployment rate increases materially. That is the challenge the RBNZ will face next year. And the larger the fiscal stimulus the greater the upside risk to interest rates.

By Rodney Dickens

Managing Director & Chief Research Officer
Strategic Risk Analysis Limited

Visit www.sra.co.nz to learn more about the RBNZ's monetary policy experiment.



The chart shows the % of people in the labour force unemployed in New Zealand (blue line), Australia (white line) and the USA (brown line).

“ Lock provides us with a range of business financial products that enable our small Importing and Distribution business to grow successfully, resulting in the establishment of warehouses in Auckland, Wellington and Christchurch. ...an important extension to our business in financial matters and customer support. ”

Bob Lee
Chairman,
Mowac Corporation Limited



China learns from market leader

IN AUGUST A CHINESE DELEGATION CAME TO NZ TO STUDY OUR SECURITIES LAW. WHILE HERE THEY INTERVIEWED OUR GENERAL MANAGER OPERATIONS, SIMON THOMPSON, WHO HAS SINCE VISITED CHINA. SIMON TELLS US MORE ABOUT HIS CHINESE EXPERIENCES:

There is already \$20billion of factoring activity in China, however, there is \$2 trillion(!) of account receivables. If this money is freed up it will provide a huge lift for small business financing in China.

It was fascinating to see how quickly a country the size of China can make significant changes. Although my discussions were through translators it was clear they were amending the new regulations instantly around the table.

I was invited to present at two Chinese conferences and at the second I was on the podium for six hours. The audience comprised 230 senior bankers and this was followed by a number of one-on-one sessions with individual banks. Throughout the trip the Chinese enthusiasm was evident and their hospitality excellent.

There are no plans to open a branch in China, but Simon hopes mutual opportunities may come from the connections that were made.



IMAGINE HOW MUCH EASIER LIFE WOULD BE IF MOST OF YOUR BUSINESS SALES WERE IN CASH

Our factoring product can provide immediate access to cash tied up in the debtors ledger. Ideal for fast growing companies and those with lower levels of equity and assets. Our factoring products provide up to 90% of each debtors face value immediately. Management of the ledger becomes our responsibility so your precious time isn't wasted chasing customer payments. We also offer flexible credit approval terms.

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 business owners sooner rather than later. So if you would like more information give us a call now.

Office Closure:

Please note that Lock Finance will be closed on Monday 24th December and Monday 31st December. We urge our clients to plan for these days in regards to any maturities and draw downs. Please contact our operations staff if this creates any difficulties for you. We thank you for your co-operation.

S.H. Lock (NZ) Limited

Level 14, Tower Centre
45 Queen Street
Auckland 1010

PO Box 106054
Auckland 1143
New Zealand

www.lockfinance.co.nz

Freephone
0800 ASK LOCK

(0800 275 562)

LOCKFINANCE