



**THE ANZ PRIVATELY-OWNED
BUSINESS BAROMETER 2007**

Understanding the opinions of privately-
owned businesses in New Zealand

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FOREWORD BY →
NIGEL WILLIAMS



We hear a lot about the need for New Zealanders to be world champions, not only in the sporting and cultural arenas, but in business too.

We look enviously at Finland where a former gumboot manufacturer became a world-leader in mobile telephony; to Europe for its reputation in haute couture and to Japan for world-leaders in the design and manufacture of household electronic products and motor cars.

The stories of most of these firms are very similar. They started small and grew to become world leaders. In their home markets Nokia, Versace, Sony and Toyota have even greater significance than abroad. As icons they create national pride and confidence; as economic powerhouses they create enormous wealth for their employees, suppliers, shareholders and the economy. As forward-looking enterprises they also drive research and development, directly and through the tertiary sector.

New Zealanders have a reputation for innovation. That's the spirit that drives many successful businesses. They too start small; build on their achievements. Collectively they are large employers and wealth creators. But how can more go on to become world champions?

Recognising the need for greater insight, we commissioned research amongst owners of New Zealand's larger privately-owned businesses.

We wanted to find out how owners see their future options and what limitations they face, especially as they move into the more mature phases of their business lifecycle. We presented the results to a panel of business experts and our senior executives for further analysis to create the ANZ Privately-Owned Business Barometer 2007.

The Barometer identifies issues that could be holding businesses back. Many of the matters raised warrant more investigation and debate. To foster further understanding, we intend that the Barometer be conducted annually to measure sentiment and highlight opportunities that could drive higher levels of performance, and ultimately create global winners.

In addition, we will work with others in the sector to investigate establishment of the New Zealand Privately-Owned Business Institute to champion issues affecting these important and high-growth businesses.

As always, we want to demonstrate our commitment to our customers with innovative solutions to unlock wealth and drive growth. The Barometer's findings will add to our team's practical experience in funding business growth and change.

My thanks to all those who contributed to the ANZ Privately-Owned Business Barometer and especially to the owners, directors and managers of businesses who took part in the survey. Donations to Plunket and The New Zealand Cancer Society have been made in recognition of their contribution.

Nigel Williams

Managing Director,
 Institutional, Corporate & Commercial Banking

→ 01. INTRODUCTION

The need to better understand the poorly-researched area of larger privately-owned businesses prompted this research amongst well-established businesses with revenues of between \$10 million and \$150 million per annum.

This important segment of the economy encompasses approximately 3,500 firms who are estimated to contribute over \$100 billion in revenues to the economy each year. The 330 respondents to the survey represent just under 10% of this market, and are estimated to be responsible for total revenues of \$11 billion annually and to directly employ 30,000 people¹.

As a major banker to New Zealand's privately-owned businesses, ANZ is increasingly seeing two key areas of need being raised – companies looking to fund growth, expansion or acquisitions; and companies dealing with the complexities of succession – change of ownership and/or releasing time and capital from their businesses.

Rather than guessing at the issues facing privately-owned businesses, we commissioned research firm Colmar Brunton to investigate the opinions of decision-makers and owners of larger businesses in New Zealand – particularly around business growth, change of ownership and work-life balance.

Methodology

The survey covered a sample of over 1,000 businesses nationwide, which included customers of ANZ, The National Bank and a selection of other bank customers. This sample is estimated to represent just under a third of the estimated 3,500 privately-owned businesses in New Zealand with turnover >\$10m.

The survey's response rate was 33% - representing a little less than 10% of the total market – a statistically relevant response rate, giving a representative sample of New Zealand's larger privately-owned companies.

Survey Structure

The survey was broken into the following five distinct areas, for the reasons noted:

- › Demographics – to understand the sample demographic
- › Business & Economic Sentiment – as a check on sentiment
- › Privately-Owned Business Management – the issues facing privately-owned businesses, in particular in regards governance, ownership and engagement
- › Growth (encompassing Growth, Expansion & Acquisition) – to delve further into the issues surrounding growth
- › Change (encompassing Change of Ownership, Release of Capital & Succession) – to delve further into issues regarding change

Analysis and Results

The responses were initially analysed by the survey team, followed by a panel review by knowledgeable industry advisors to seek external verification on the findings and our assessment of those findings. Our thanks in this regard go to: David Skilling, Chief Executive, The NZ Institute; Erich Bachman, Managing Partner, Hesketh Henry; Colin Theyers, Managing Director, Corporate Finance, Staples Rodway; Don Jaime, Director, Swann Group; Simon Mowatt, Associate Professor of Management, AUT; Sandy Maier, Professional Director.

The results confirmed much of what we already suspected – but importantly it provided further context and statistics around those views. And, like all good surveys, the results also revealed new insights into this part of the market and led to a range of new conclusions.

We do hope that the information contained in this report is as insightful for you – and look forward to sharing further information and thoughts with you when ANZ next delves into privately-owned businesses in a year's time. Please note that the survey results are quoted in \$NZD.

1. In quantifying our estimated target market size, we employed two methodologies: Firstly, by categorising Ministry of Economic Development (May 2006 Report) headcount and total income statistics (adjusted for inflation) and secondly, via identifying germane customer statistics and extrapolating these numbers in accordance with external estimates of market share. While not exhaustive, each method returned a similar result suggesting a total market sample of circa 3500 businesses. Our estimates were further verified by extrapolating the survey's actual results in respect of total respondent turnover (\$11bn) and headcount (30,000 employees) - whereby each was close to 10 percent of that categories approximate market size.

→ 02. EXECUTIVE SUMMARY

The ANZ Privately-Owned Business Barometer seeks to investigate the issues confronting privately-owned, well established enterprises in New Zealand.

Typically these businesses have turnovers ranging from \$10 million to \$150 million and are strong contributors to economic growth.

Most of these firms are controlled and managed by their main shareholders, many of whom also founded the business. Their hallmark is that they have been successful and have established a platform with the potential to create further wealth for the benefit of shareholders, stakeholders and the country's economy. But realising their maximum growth potential, for some, appears to be elusive.

This is a significant issue for New Zealand and deserves more analysis to better understand potential impediments to substantial growth.

Recognising the importance of this, ANZ initiated a survey of privately-owned businesses and tested the findings with a panel of business experts as well as our own senior executives.

We are now publishing the results as the first ANZ Privately-Owned Business Barometer. This report has three key sections. Several key comments from the Barometer are listed on this page. The major issues arising from the Barometer are listed on pages 6 - 8. The full findings from the Barometer are listed from page 10 onwards.

“This survey raises a vital point – reminding us that owners of businesses are driven by many different motivators, and therefore require a much broader set of solutions than have traditionally been offered by the market. Our role as a bank is to truly understand an owner’s needs then to design the solution most appropriate to their business and those needs.” Ross Verry, Head of Corporate Banking, ANZ

KEY THOUGHTS

Growth

Two thirds of businesses expect to grow this year by way of significant investment. We believe growth aspirations could be more easily realised by:

- › Better access to, or use of external expertise, including better use of truly independent directors on boards (a third are without a Board structure and only half have independent director(s))
- › More information and advice about alternative methods of growth (only 17% will seek to grow by acquisition in the short term)
- › More ready access to capital (half would make acquisitions or expand if capital was not a constraint)

Change

Nearly half of all owners expect to retire in the next five years and a third expect to be less involved in three years. But few have defined plans to effect this change. We believe change could be easier for owners to contemplate if:

- › They see succession as staggered change, rather than outright exit (perhaps releasing time and capital as a first step to a possible eventual exit)
- › External advice is sought in planning for change (nearly half say succession is an “issue”)
- › Existing management figured more highly in the change equation

→ 03. THE ISSUES

The Business Barometer identifies six significant issues confronting the privately-owned business sector.

1. THE ROLE OF BOARDS

- › Do our boards really cut the mustard?
- › Do owners understand the role that boards can play beyond governance?

The results in regard to boards at first glance were encouraging – two-thirds of companies have boards, most meet reasonably frequently and over half have non-executive directors in place. But when looking at the value a board could play – beyond a governance role, and in particular in driving growth – the question has to be asked, can we do better?

- › One in three companies had no board at all – a surprising statistic given the size of many businesses.
- › The fact that only half of boards hold ‘regular’ meetings (monthly or bi monthly) raises questions as to the involvement and hence effectiveness of many boards.
- › The lack of non executive directors raises questions as to the true independence and ‘value-add’ of some boards. 48% of respondents had no non-executives on their boards, and the true percentage could be much higher if other family members and / or the company’s accountant / lawyer were eliminated from the result.

The experience of ANZ is that high growth-potential companies of this size have much to gain from employing a truly independent director on the board, focused on the drivers for growth and the future direction of the company, rather than just governance. Such directors often bring international experience and a wealth of expertise to the table – and can make a real difference in driving both strategy and growth.

2. BARRIERS TO GROWTH

- › Is complacency stifling business growth? Or is a lack of knowledge, (about how to grow or how to fund growth) a factor?
- › Could greater access to advice and expertise help?

A commonly held perception – borne out by the experience of the panel, is that many owners get their businesses to a stage where they reach a position of comfort, then choose to settle back and enjoy life. This is often described as the three B’s syndrome – namely ‘Beach’, ‘Boat’ and BMW’ - not a hard position to relate to - but with the result perhaps being a natural glass-ceiling being set on business growth within those companies.

But, while some owners choose to adopt this view, the survey suggests that there are plenty of businesses in the market hungry for growth – raising a question about what other factors might affect their thinking in this regard?

So, what other reasons exist? Is it a lack of ambition – to take the business to the next level? Or a lack of knowledge – on how to grow or how to fund such growth? Is it risk aversion – of the owner towards taking on risk; or in borrowing the funds necessary to fund such growth? Or do owners simply not have the time to manage for growth? Is a lack of capital a real issue? Or, building on the previous point, perhaps it’s a lack of support / guidance / expertise that’s the more relevant barrier to success?

Our sense is that the reasons are widespread. The common assertions about complacency and the 3 Bs do exist, but there are many other factors playing a role. The bottom line is that there appear to be many companies out there with untapped growth potential, who could generate significant additional wealth for investors, stakeholders and be larger contributors to the overall economic well-being of New Zealand.

3. GROWTH BY ACQUISITION

- › Is a lack of capital a constraint to growth?
- › Why aren't more companies growing via acquisition?

Only a third of those surveyed felt that access to capital was a constraint to growth – yet when offered more capital, half the businesses in the total sample said they would accelerate their growth by making acquisitions.

Acquisition is a very common form of growth internationally. New Zealand is also in a phase of increased business consolidation - particularly given an ageing ownership base and growing sector consolidation. Yet despite this, only 17% currently envisage growth via acquisition in the short term.

As with previous points, many reasons contribute to such decisions. We suspect these include limited knowledge as to how to make acquisitions, as well as access to advice, in particular in regards to funding acquisition. Perhaps this is another area where professional advisors and boards can do more.

Understanding such anomalies is a key to unlocking value in the future.

“The Business Barometer gives us invaluable clues to the aspirations of companies driving future economic growth. It reminds us forcefully that governance really does matter, and more importantly, of the value a board can play in championing growth,” Sandy Maier, professional director

4. MOTIVATORS FOR CHANGE

- › What are the real motivators for change? Do owners want more options?
- › Forget succession – if anything, it's staggered exits that many owners are really after.

‘Succession’ for many means ‘when am I going to sell my business?’ But it needn't be that black and white. Nor is it, with the survey suggesting that business owners have a plethora of different motivators that influence their decision to enact or plan for change.

‘Succession’ is a concern – whether understood or ignored. Half of all respondents identified it as an issue; half want to retire within 5 years; and a third want to be less active in 3 years.

However, 76% of owners are still actively running their business and only 10% have a formal plan for change in place – whatever form that change might take.

In regards motivators, the survey highlights two main drivers – the desire to release time (to spend with family or to pursue other interests); and the desire to release capital (to de-risk ownership or to spend on other things).

Despite the common view that it's either all-in or all-out, ANZ's experience matches survey findings – suggesting that owners can stay involved, can stay invested – but at the same time can achieve their other goals on the way to an eventual exit – if and when desired.

So, can owners have their cake and eat it too? Absolutely! The message is clear, owners need to consider their position, understand their options, then seek advice in preparing for whatever objective it is that they wish to achieve.

5. IS VALUE BEING DESTROYED?

› Are shareholders holding onto the reins too tightly or for too long?

The desire of principal shareholders to be less active as managers in the next 3 years suggests significant on-coming change in ownership.

But are business owners preparing for this? Will they let go of the reins – in stages or at once? Or will we see an aging ownership demographic unsure as to what is needed or unwilling to move forward. The result? Businesses failing to pursue opportunities or invest in maintaining competitiveness. The loss of a frustrated next generation of middle managers and even a significant decline in the prospects for the business and the value of that business over time?

A clear danger suggested by the survey is that owners may be holding onto the reins too tightly or for too long. This natural reluctance to dilute an owner's shareholding, or to share management responsibilities, may be causing damage to the very asset that owners seek to protect. Business owners should start considering early what change might be necessary and who might be involved in that change, over what timeframe.

The decision needn't be black and white. A variety of options exist – including staggered succession, which enables owners to release cash and time, but to remain as owners, engaged in their business going forward. Bottom line, owners need to think like investors and decisions need to be made before value is destroyed.

6. THE ROLE OF MANAGEMENT & FAMILY

› Why is management seemingly being ignored?

› Is handing down to family becoming an increasingly unrealistic goal?

Given the high level of change of ownership expected in the next few years, and the international experience that families and in particular management play a key role in such activity, it's surprising to see family and management figure low in vendors' preferences for exit. The transition to family or management is generally considered to be the least complicated of all exit mechanisms, (in terms of preference, interest and capability), and is often preferred by many vendors for a range of other reasons.

On the management front, only 15% nominate management as their preferred exit mechanism – despite international evidence suggesting that in many markets management is the vendor's preferred form of exit. This seems to be in conflict with the fact that 58% of owners feel management are capable of taking over, and 57% say management are interested in taking over. This raises serious questions. Why are owners discounting management? Is it because they feel managers can't afford to buy such businesses? Or do they feel that they will get a better price elsewhere?

ANZ's experience of many transactions suggests that not only can managers afford to buy businesses – albeit often with the assistance of their bankers or private equity backers, but also that the price they are prepared to pay commonly matches other offers and sometimes exceeds them. In our view – utilising existing management in some form of succession plan is to be encouraged.

In regards families – while 22% see family as preferred exit mechanism, is this realistic? ANZ's experience has found that many children are less enamoured by the prospect of taking over the reins than their parents anticipate. We suspect the actual rate of change to families is lower than the anticipated 22% reported.

→ **04.** THE ANZ PRIVATELY-OWNED
BUSINESS SURVEY

→ RESPONDEE DEMOGRAPHICS

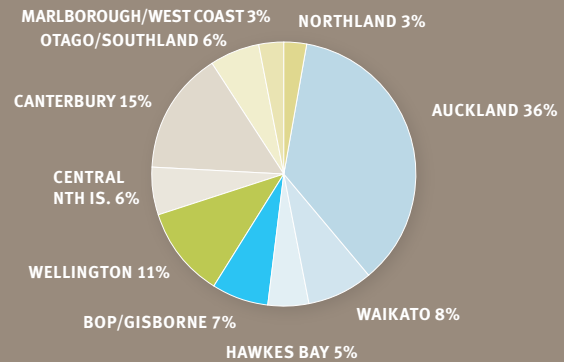
KEY FINDINGS

- › 84% of respondents identified themselves as shareholders of the business
- › 68% classified themselves as the 'main shareholder'
- › 70% of current owners founded the business
- › More than one-third of businesses surveyed were founded more than 30 years ago; and over 89% of businesses were ten years or older
- › Just under a third of main shareholders were over 60 years of age; two-thirds were over 50 years
- › 55% of respondent businesses had turnover >\$20m per annum
- › 78% (of those disclosing) had EBITDA > \$1m per annum

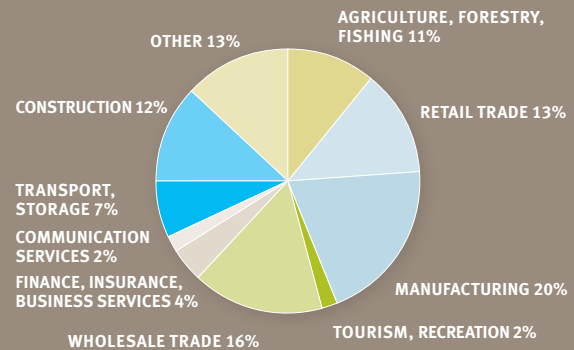
PROFILE OF SURVEY RESPONDENTS

- › The survey targeted just over 1,000 privately-owned businesses, representing almost a third of the estimated 3,500 privately-owned businesses in New Zealand with turnover >\$10m.
- › The response rate was 33%, representing just under 10% of the total estimated market.
- › Respondents were largely the key decision-makers; a cross section of directors, general managers and chairmen/women.
- › 84% of respondents were shareholders within the company.
- › 68% of respondents identified themselves as the company's 'main shareholder' (defined as majority or equal majority shareholder).
- › Two thirds of main shareholder respondents were 50 years and older and 28% were 60 years and older.

RESPONDENT COMPANY LOCATIONS



RESPONDENT COMPANY INDUSTRIES



GEOGRAPHICAL SPLIT

- › All major regions were represented.
- › 76% of respondent companies were North Island based (the main centres of Auckland and Wellington contributing 36% and 11% respectively), with the remaining 24% located in the South Island (largely within Canterbury).

SECTOR SPLIT

- › All major sectors were represented with Manufacturing (20%) being the most prominent.

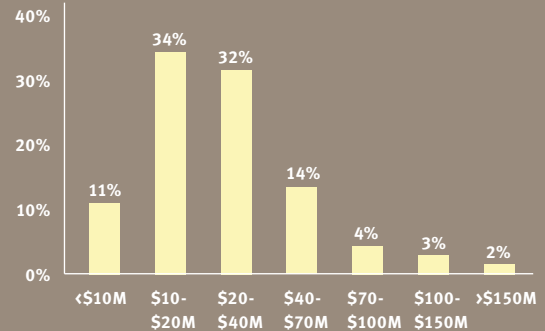
AGE AND ORIGIN OF BUSINESSES

- › Respondent companies were generally well established, with 89% in operations for 10 years or more.
- › 35% of businesses were founded over 30 years ago.
- › On origin of the business, 70% cited the current owner(s) as the original 'founder(s)' of the business.
- › Of the remaining 30%, in half the responses, ownership since inception has remained within the founding family.

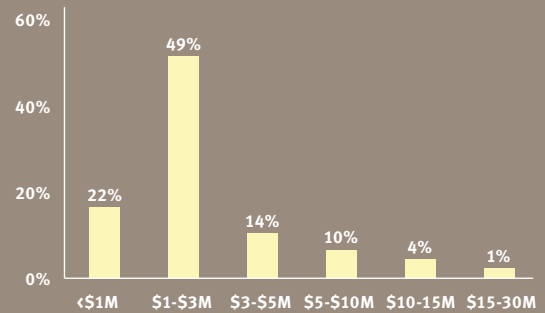
SIZE AND PROFITABILITY

- › 79% of respondent companies employ 20 or more (full time equivalent) employees, while 30% employ 100 or more.
- › 89% classed their turnover as \$10m plus per annum, and 55% as \$20m plus.
- › Two thirds of respondents reported revenue of between \$10m and \$40m per annum.
- › Of the companies that disclosed their EBITDA (Earnings Before Interest, Tax, Depreciation, Amortisation), 78% had EBITDA >\$1m per annum, with 49% in the \$1m to \$3m per annum range.

RESPONDENT COMPANY TURNOVER



RESPONDENT COMPANY EBITDA



→ OUTAKES

The results represent the views of a sample of mid-market, private business owners, whose companies are strong contributors to the New Zealand economy.

The results suggest relatively little change in management within established businesses. Many businesses are still managed by their original founders; while the large proportion of businesses have been established for 10 years or more, with one third of businesses being older than 30 years.

➔ GENERAL BUSINESS SENTIMENT

KEY FINDINGS

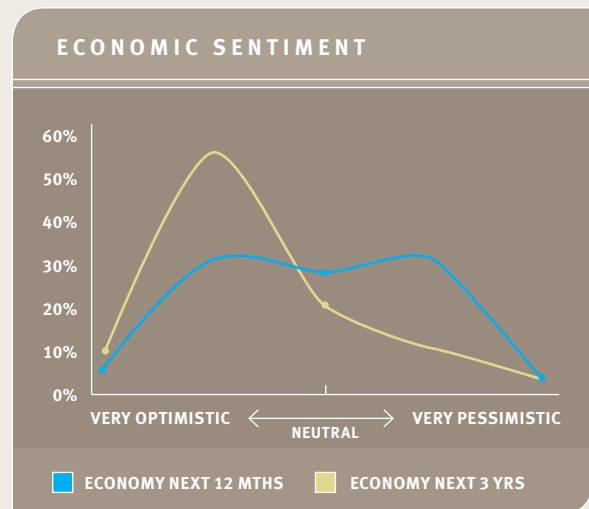
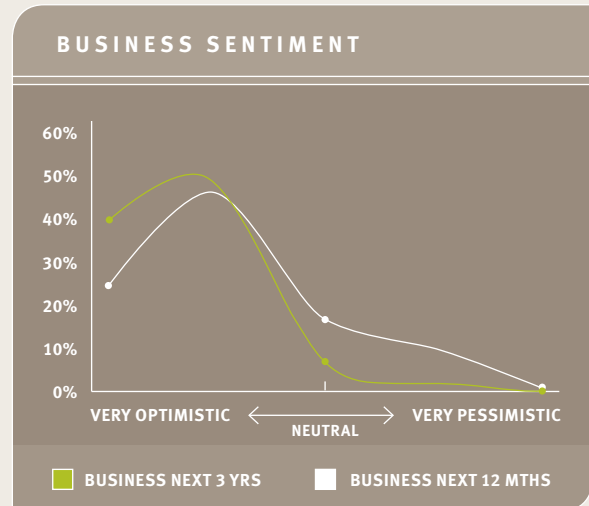
- › In the short term, respondents were generally positive about their business and to a lesser degree the economy; however they were far more confident when looking at a three year view
- › This level of optimism is reflected by the fact that almost two-thirds of respondents are planning to invest for growth in the next 12 months
- › The predominant economic risk cited was exchange rate movements, while human resources was a key business concern

CORPORATE VS. ECONOMIC PERFORMANCE EXPECTATIONS

- › 71% of respondent companies reported 'optimistic' performance expectations in the near term (next 12 months). These expectations improved to 90% in the longer term (next 3 years).
- › The outlook for the New Zealand economy compared less favourably, only 37% of respondents were 'optimistic' in the near term (increasing to 65% in the longer term).
- › When analysed by industry type, Transportation and Construction were identified as being the more optimistic sectors over the longer term, with most industries adopting a 'status quo' outlook for the near-to longer-term for the economy.

GROWTH EXPECTATIONS

- › Positive business sentiment was further evidenced by 94% of respondents saying they expected to 'grow' their business (by way of significant investment) at some stage.
- › The anticipated timeframe for investment in growth was short - 63% considered this would be immediate or in the near term (now or within the next 12 months).



BUSINESS PERFORMANCE CONCERNS

- › Respondents were asked to identify the key risks and concerns most likely to affect business performance .
- › Most cited exchange rate movements; competitive pressures (domestic & international); and human resources – availability of qualified people.
- › Other areas of concern identified were: fuel/energy prices; government regulation/procedures; access to capital/growth funding and succession related issues.

→ OUTAKES

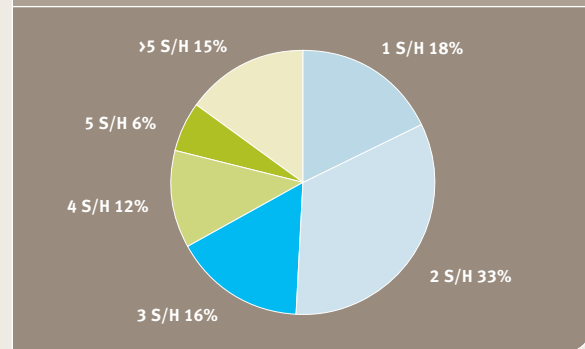
- › Exchange rate movements, and to a lesser degree, fuel and energy prices were identified as concerning. These are areas where financial hedging instruments can play a part in managing risk.
- › The issue of sourcing skilled labour resonates with a continuingly tight New Zealand labour market.

➔ PRIVATELY-OWNED BUSINESS MANAGEMENT

KEY FINDINGS

- › Close to one in three companies has no Board of Directors
- › Only 57% of companies with boards that meet, conduct regular meetings (monthly or bi-monthly), with 43% meeting quarterly or less often
- › Just over half of companies have independent director(s)
- › In three-quarters of companies, the main shareholder holds a controlling stake
- › Three quarters of main shareholders are actively involved in their businesses at present. In three years time less than half wish to remain so.

NUMBER OF SHAREHOLDERS



BOARDS AND GOVERNANCE

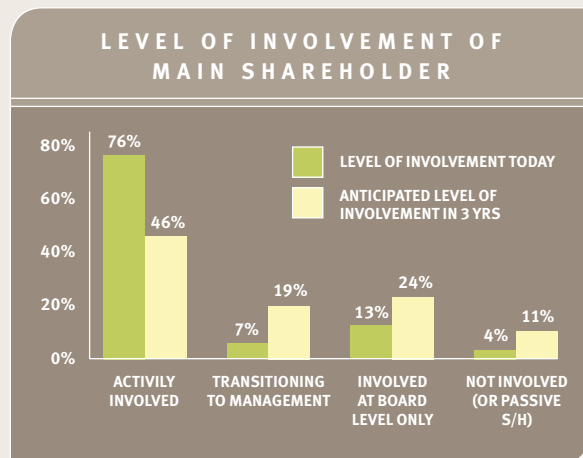
- › A Board of Directors was in place in 69% of respondent companies.
- › 80% of respondents with boards conduct formal board meetings, however, only 57% of these meet on a monthly or bi-monthly basis.
- › Where a Board did exist, it consisted of over 3 members in 72% of responses.
- › Independent director(s) were present in 52% of respondent companies, with just under half appointing only one.
- › 48% therefore did not employ the services of an independent director. When asked to consider any “growth initiatives”, half of these agreed they could benefit from appointing an independent director.
- › With reference to annual accounts, 53% of respondent companies did not have their financial statements ‘audited’.

OWNERSHIP STRUCTURES AND CONTROL

- › Ownership in this segment of the market remains tightly held, with 51% of respondent companies being owned by two or less shareholders (defined as an individual, trust or company).
- › 74% of respondent companies identified their 'main shareholder' as holding 50% or more of the business.

SHAREHOLDER ENGAGEMENT – TODAY VERSUS TOMORROW

- › 76% of main shareholders are currently 'actively involved' in the day-to-day running of their businesses.
- › Presently 13% of main shareholders are 'involved in their businesses at a Board level only', 7% are 'transitioning to management' and 4% classed themselves as 'passive shareholders'.
- › In considering anticipated engagement levels three years from now, 'active involvement' of main shareholders reduces by 30% (down to 46%). Correspondingly, increasing numbers are anticipated to be involved at Board level only (24%), or transitioning to management (19%).



→ OUTAKES

- › One in three companies had no board at all – a surprising statistic given the size of many of these businesses.
- › Independent directors clearly have a far greater role to play than simply managing corporate governance. These directors can often offer an experienced sounding-board as well as a wealth of expertise to businesses aiming for growth.
- › While it is encouraging that half of respondents had non-executive directors in place, an issue not studied here is the extent to which these directors are truly independent (ie. other family members and/or the company's accountant/lawyer).
- › Individual circumstances aside, the proportion of boards meeting irregularly does raise a question as to effectiveness of those boards.
- › Privately-owned businesses remain largely controlled and managed by the 'main shareholder' – not surprising in New Zealand's entrepreneurial, 'do-it-yourself' environment.
- › However, the survey reveals that this may be set to change. One-third of main shareholders are looking to reduce their day-to-day involvement in the business within three years, and almost half of respondents are looking to retire inside five years.
- › This suggests a clear and compelling need for the owners of many private businesses to proactively manage for change, especially as we see below, just 10% currently have a formal succession plan in place.

➔ GROWTH; EXPANSION; ACQUISITION

KEY FINDINGS

- 63% of respondents expect to grow in the immediate or near term
- 70% expected to achieve growth relatively passively (in the short term) - via organic sales growth or product expansion or in the normal course of business
- 17% envisaged growth by acquisition in the short term, rising to 32% out to 5 years
- 36% of respondents see capital as a constraint to growth
- 49% would acquire or expand if funds were more readily available

GROWTH ASPIRATIONS AND STRATEGY – SHORT VERSUS LONG TERM

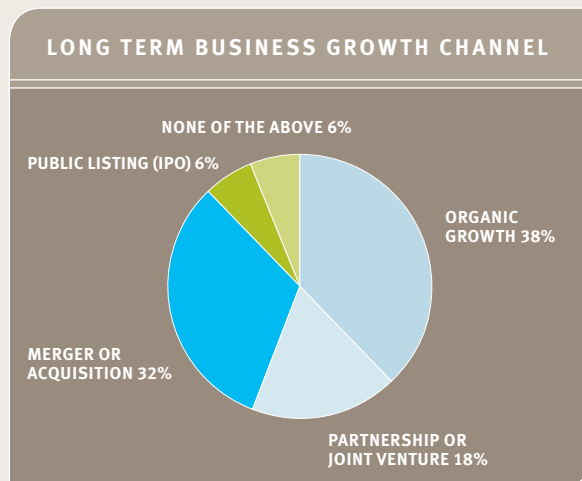
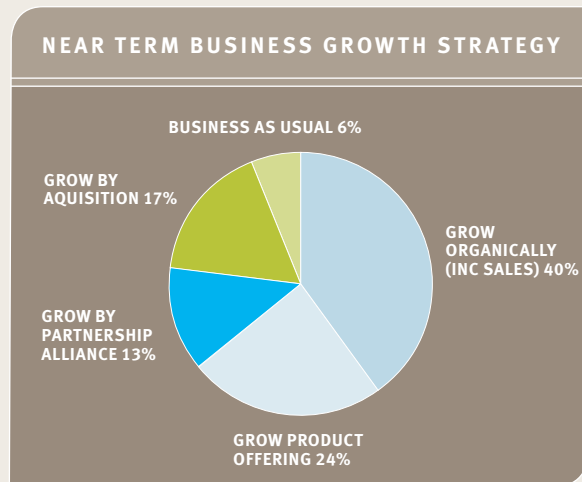
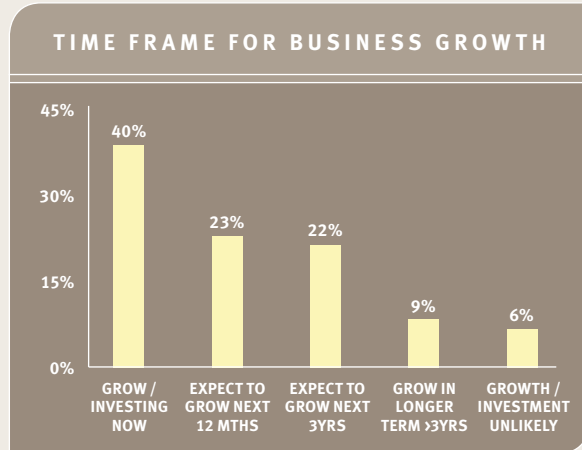
- Almost all respondents expect growth (94%) in the longer term.
- 63% of respondent companies have immediate growth aspirations (40% investing for growth 'now' and 23% over the 'coming year').

NEAR TERM GROWTH STRATEGIES

- Organic growth was the most prevalent growth strategy noted by respondents, with 40% expecting to grow by way of increased sales in the near term (next 1-2 years multiple responses allowed).
- Other growth strategies included: 'grow by product offering' (24%), 'grow by acquisition' (17%) and 'grow by partnership or alliance' (13%), demonstrating a largely conservative approach to growth in the short term.

LONGER TERM GROWTH

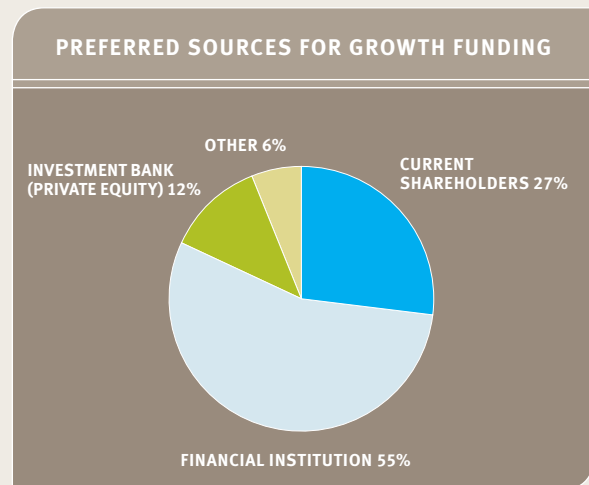
- Growth options in the longer term (next 5 years) were somewhat more aggressive. Whilst organic growth was still the favoured channel, an increased number of responses were for Merger or acquisition (M&A) (32%); or Partnership/joint venture (18%).
- While 32% said M&A was a viable option growth in future, this rose to 49% when asked if they would make acquisitions or expand if capital or equity was more readily available.



- › Only 6% identified an IPO (public listing) as an option in the longer term.

FUNDING GROWTH

- › 64% of respondents said 'capital / equity' was not a constraint to achieving their desired growth strategy.
- › However in contrast, 49% of respondents said they would make acquisitions or expand if capital / equity was more readily available.
- › The predominant sources identified for growth funding (as a percentage of total responses to this question) were banks & finance companies (55%) followed by current shareholders (27%) and investment banks (private equity) (12%).



→ OUTAKES

- › Capital is not considered a constraint to growth by almost two-thirds of respondents. Yet this appears to conflict with almost half of respondents saying they would make acquisitions or expand if capital was more readily available.
- › This raises a fundamental question – are New Zealand businesses either consciously or unconsciously stifling growth potential in their businesses? If so, why? Is this because they are comfortable with where they are and don't have the ambition to expand? Or are they too risk averse or have an aversion to debt? Is funding a real issue or just an excuse? Or is there a real lack of advice and know-how at board level, which if resolved could help companies proactively step up to the next stage of growth?
- › The majority of short term growth strategies appear conservative ie. internal by nature, rather than externally focused, raising a question as to the true optimism and aspirations of many owners.
- › Given the current trend towards consolidation in the marketplace and growing M&A statistics, it is surprising that only 17% consider 'growth by acquisition' as a realistic channel for growth in the near future (this figure almost doubles in the longer term).
- › This begs the questions 'Are companies holding back?' And if so, why? Many reasons might contribute to such decisions. Is a lack of knowledge – or access to advice playing a factor? Is the relative risk profile of this ownership group playing a role – making them reluctant to take on risk or debt at this stage of their lives?

➔ CHANGE OF OWNERSHIP; RELEASE OF CAPITAL

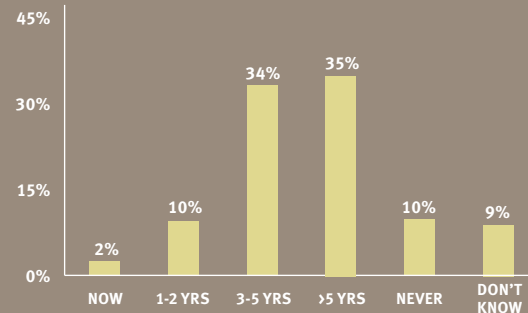
KEY FINDINGS

- › 28% of main shareholders are 60 years plus
- › 46% of respondents expect to retire inside 5 years and 45% by the age of 60
- › 48% cite succession as an issue, with just 10% having a formal plan in place
- › Releasing 'time' was considered the key motivator for change (40%)
- › Releasing 'capital' was the second most important motivator raised, with 21% of respondees listing this as a motivating factor for retiring or taking a less active role in their business
- › 49% of responses cited an external exit as the preferred form of succession mechanism (trade sale, private equity or IPO)
- › 22% prefer exit to family – 31% see family as interested and 37% believe family to be capable
- › 15% prefer exit to management – 57% view management as interested and 58% believe management are capable

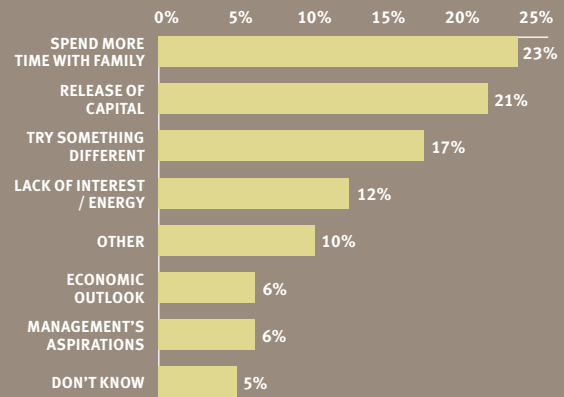
RETIREMENT INTENTIONS

- › The main shareholder is identified as being over 50 years old by 66% of respondents (and 28% over 60). Similar ages were apparent for the other key shareholders.
- › In an 'ideal world', 45% of respondents expected to retire by the age of 60.
- › On the other end of the spectrum, 32% considered retirement at 65 plus, were unsure when or had not considered retirement at all.
- › Succession is however cited as 'an issue' for 48% of respondents.
- › 46% of respondents intend to retire/move on from their business inside the next 5 years (12% within 2 years).

WHEN TO RETIRE / MOVE ON?



MOTIVATORS TO RETIRING / LESS ACTIVE ROLE



PLANNING FOR CHANGE

- › While 46% of respondents expected to ‘retire or move on’ within 5 years, only 37% realistically expected a ‘change of ownership’ to occur within the same timeframe.
- › 75% of respondents said they had some sort of plan in place or being developed for the future ownership and management of the business, but only 10% had a formal plan in place.

MOTIVATORS FOR CHANGE

- › Respondents were asked to identify the main factor(s) that would motivate them to retire or take a less active role in the business. As a percentage of all responses, ‘spending more time with family’ rated as the number one motivator (23%), closely followed by ‘release of capital’ (21%).

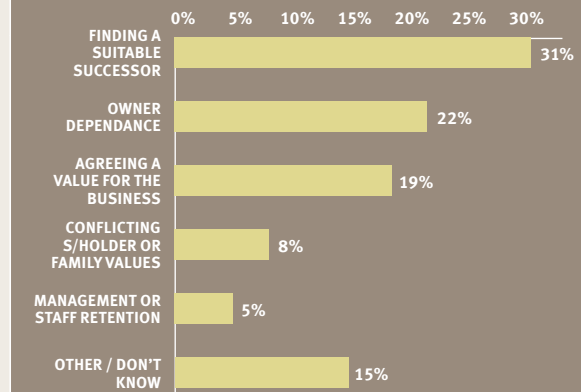
BARRIERS TO SUCCESSION

- › Of total responses, ‘finding a suitable successor’ (31%) and ‘an over dependence on the current owner’ (22%) were perceived as the most prominent barriers to succession.

VALUE EXPECTATIONS

- › 83% of respondents said they had some idea as to the value of their business.
- › Of these, only 37% had obtained a formal valuation, with 82% of these stating it ‘met with their expectations’ and 11% ‘exceeded their expectations’.
- › ‘Agreeing a value for the business’ (19% of responses) was also considered a significant barrier to succession.

KEY BARRIERS TO SUCCESSION



PROSPECTIVE ACQUIRERS AND EXIT MECHANISMS

- › 52% of companies surveyed have received offers or had interest expressed in buying their businesses recently. The majority of enquiries have come from Trade Players (54%), followed by Private Equity firms (29%).
- › Correspondingly, the most preferred form of succession was a 'sale to a trade/industry buyer' (29% of total responses to this question where up to two responses were allowed).
- › Of the available forms of succession, 49% of preferences were for external buyers, 46% were internal (family, management and minorities) and 5% did not know.

HANDING OVER THE REINS

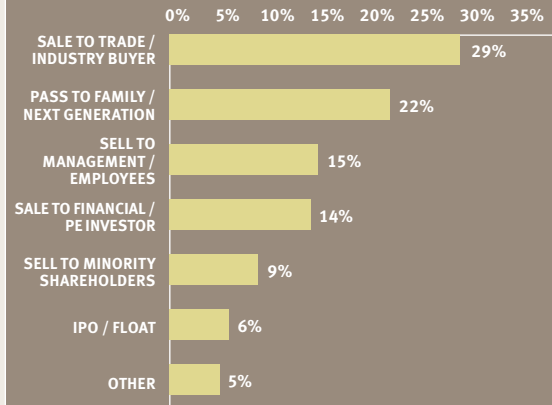
Family

- › 45% of respondent companies reported family members working in the business in some capacity. Yet with reference to the above, only 22% of responses identified 'passing to family' as a preferred form of succession.
- › 31% of respondents stated that family would be 'interested' in taking over the business - with 37% believing family would be 'capable' of taking over.

Management

- › Results illustrated that should the main shareholder be forced to stop work tomorrow, the current 'Management' would be 'likely' or 'highly likely' to ensure business continuity in an overwhelming 83% of respondent companies.
- › Some 57% of respondents identified Management as being 'interested' in taking over the business.
- › 27% of respondents did not know if Management were interested or not.
- › 58% of respondents recognised Management as 'capable' of taking over the business (a further 21% responded 'don't know').
- › It is interesting to note that only 15% of responses identified Management / Employees as preferred successors.

PREFERRED FORM OF SUCCESSION MECHANISM



→ OUTAKES

Impending Change

- › Whether it's to spend more time with family or simply to free up time to do something else, it is clear that many owners are looking to address their work / life balance. Others wish to release capital.
- › Just under half respondents intend to retire sometime in the next 5 years – which, when matched with the 30% of owners looking to reduce involvement in their companies, suggests that change of ownership (whether full or staggered), is going to be a significant reality for many in the coming few years.
- › Despite this, no sense of urgency prevails – with only one in ten owners having a formal plan for change in place.
- › Our experience suggests that there is a reluctance amongst many owners to shift their mindset from that of an owner/manager to that of an interested investor.

Types of Change

- › While some form of change of ownership may be on the cards for half of all respondents, this may occur in a variety of different ways beyond simply the outright sale of a business.
- › The survey highlights many different motivators for change – in particular, the desire to release time or capital – which may or may not result in the eventual exit by an owner. Similarly there are various mechanisms for achieving change – in particular, scenarios where business owners can 'have their cake and eat it too'. This means releasing both time and cash, de-risking their shareholding and motivating managers to think like owners and strive for growth, while at the same time retaining investment in a known business and industry .

Who might be involved in Change?

- › Transition to family or management seems to be well off the radar (sale to a trade buyer is preferred), raising some interesting observations.
- › The proportion opting for family as the preferred exit mechanism (22%) is lower than the third (approximately) seeing family as being 'interested' and 'capable' of taking over.
- › Anecdotally we hear of the emotive desire to pass onto family is often not matched by a willingness to accept the reins by the next generation.
- › Strikingly, only 15% of principals see management as their preferred exit mechanism, despite over half feeling they would be both 'capable and interested'. In many cases management are often a preferred option, for a variety of reasons including speed of transition, reduced risk and agreed price.
- › Very few (just 4%) of owners have received recent expressions of interest from management – suggesting that there could be a knowledge or confidence gap amongst New Zealand managers.
- › Should management play a greater role, then the 14% of respondents indicating the role of financial buyers in succession would increase; as many such buyers typically utilise private equity to enable management buyouts (MBOs).
- › To help owners make better informed decisions, there is clearly a role for independent and professional advice in the vital area of planning for change.

→ 05. FURTHER INFORMATION

Supporting New Zealand business owners - What ANZ can do to help.

BUSINESS LIFE CYCLE BANKING

ANZ is committed to working with businesses through the progression of the company's life cycle. Much of our service to business is in the two key areas covered by the survey, namely:

- a) Growth/Expansion/Acquisition and
- b) Change of Ownership/Release of Capital.

Our aim is to better understand companies and their needs; then work with them to design capital solutions to help them achieve their goals.

Areas where we typically provide solutions and expertise include: cashflow-backed finance (access to finance without the need for security over property); efficient financial structuring (discussing efficient and appropriate capital structures for businesses); Leveraged Finance (more complex debt solutions to support growth and change) and Private Equity (access to shareholder capital to further support growth and ownership change).

ON-GOING COMMITMENT TO NEW ZEALAND'S PRIVATELY-OWNED BUSINESS SECTOR

We want to help New Zealand business to grow and succeed.

To foster understanding of business issues, we intend that the Privately-Owned Business Barometer will be conducted annually, further adding to our understanding of the needs and issues facing owners of New Zealand's high-growth businesses, and highlighting opportunities to assist in driving further growth.

We will work with others in the sector to establish an Institute to champion issues that affect the privately-owned business sector.

We will continue to support business with innovative thinking and solutions to help unlock wealth and growth potential.

FOR FURTHER INFORMATION

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