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Media Release

For Immediate Release

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ANZ launches New Zealand Privately Owned Business Barometer

- **Most owners of privately-owned businesses are planning to invest in growth in the next year**
- **Half of these business owners want to retire within five years - but only 10% have formal plan in place**
- **This poses a significant challenge - and opportunity - for the New Zealand economy**

Privately-owned medium-sized companies are vital contributors to the New Zealand economy, according to ANZ's new Privately Owned Business Barometer. There are an estimated 3,500 privately-owned businesses in the segment, which contributes an estimated \$110 billion a year in revenues alone.

Most owners are investing for growth, but there are artificial barriers in place, preventing businesses from achieving their maximum growth potential.

A key issue is that half of New Zealand's business owners want to retire within five years and a third want to be less active within three years. This poses a significant economic challenge for New Zealand, says Nigel Williams, Managing Director Institutional, Corporate & Commercial Banking at ANZ.

"The findings highlight a number of key issues and just as many opportunities for the owners of larger privately-owned businesses," he says.

"To ensure businesses in this sector contribute to their maximum potential, it's important that we better understand the needs of such businesses and help champion their opportunities - in particular in planning for change and in achieving growth. That growth will often occur in new markets or through acquisitions where the experience of independent directors can reduce risk."

ANZ's Privately-Owned Business Barometer, launched today, is the first substantive research into larger privately-owned businesses in New Zealand and is aimed at better understanding issues and opportunities facing both businesses and business owners in this vital segment of the economy.

The survey was conducted by Colmar Brunton among 1,000 business owners of privately-owned businesses in New Zealand with annual revenues between \$10 million and \$150 million. The 33% response rate represents almost 10% of the total estimated market.

The survey was established to better understand this most dynamic segment of New Zealand's economy, Williams says.

Changing from Owners as Managers to Owners as Investors

"There has been much debate about creating an ownership society in New Zealand. But it is concerning that while the owners of these businesses have been successful at growing their businesses, just under half of the respondents plan to retire in the next five years."

Historically, owners' options have been limited - with outright exit being the only real option.

"This survey reinforces our view that many owners want more - most want to release time and capital - perhaps as a first step towards an eventual change in ownership," Williams says.

“Helping businesses with this type of staggered change is critical as we enter a period where succession is becoming a real issue. Management can play an important role by stepping up to an ownership position – effectively unlocking a new generation of owners and giving them the opportunity to help drive the next round of business growth.”

Stifled Growth Prospects?

The survey results also raise questions about whether the growth aspirations of privately-owned businesses match their potential opportunities – and the barriers standing in their way.

“Business owners are reinvesting profits in their businesses, but we suspect that the next round of growth through acquisitions or in new markets will require clear strategies,” Williams says.

“Independent directors with relevant growth experience may help owners constrained by lack of time, resources and experience in new markets. The survey confirms ANZ’s own views that access to capital is not the constraint to growth.”

So what can be done to help?

“These findings will foster positive debate about this critical part of our economy,” Williams says.

“When it comes to succession, the key is to raise awareness among business owners of the many different options they have beyond outright exit. It’s important for New Zealand that management plays an increasing role with owners to achieve staggered succession if this is the path they choose.

“The role of boards and advisors cannot be over-emphasised in adding value to this process. Good quality advice, from boards and external advisors is critical to helping owners realise their maximum potential.”

SUMMARY OF KEY FINDINGS

Demographics – mature business dominate

- 89% of businesses established more than 10 years ago, 35% have existed for 30 years or more.
- Owners are still very much in control: 70% are still run by founders
- Owners are aging: 66% of shareholders are 50 years or older; one third are 60yrs or older
- Businesses are sizeable: 55% had revenues over \$20m; 23% over \$40m

Business Sentiment - strong growth aspirations

- 63% plan invest in growth next 12 months - confidence generally strong
- Most more confident about own business than the economy / more optimistic medium vs. short term)
- Risks do exist, particularly around currency and sourcing of skilled labour

Management & Structures - boards under-utilised

- Boards under-utilised - 1/3 of companies had no boards at all; Only 57% of boards meet regularly
- Value add - 48% believed growth would benefit from appointment of independent director
- Owners still very much in control - 76% of main shareholders actively involved in management

Growth is expected - but potential appears constrained by barriers

- 66% expect growth this year by way of significant investment;
- 70% expect organic growth, 17% expect acquisitions in near term
- 64% say access to capital is no constraint - yet 50% would acquire or expand if more funds available.

Looming change – owners want more options than outright exit

- 46% of owners wish to retire 5 years; 1/3 to be less active in 3 years
- Planning for change a significant issue: 46% feel succession an issue - yet only 10% have formal plan
- Many different motivators driving owners: 40% wish to release time, 21% to release capital.
- Exit preferences vary (only 15% prefer management; 22% prefer family)

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A full copy of the report is available by emailing barometer@anz.com



Media Backgrounder

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Issues raised by ANZ Privately Owned Business Barometer

Change

- **Clear succession issue – whether understood or ignored:** Change is looming, owners are unprepared, and need to shift mindset (over time) from 'manager' to 'investor'. Half of all respondents see succession as an issue; half want to retire within 5 years; and a third want to be less active in 3 years. Compelling numbers – suggesting the need for more thought given that 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.
- **Many motivators for change - it's not just about 'selling out':** Owners want more options than black and white exit / sale. The survey shows that business owners have a wide range of motivators when considering change, in particular, 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). Few owners are aware that they can have their cake and eat it too, releasing time / capital alongside staggered succession.
- **Sitting still is not an option – big risk in doing nothing:** Given this backdrop of change, we wonder if owners are aware of the risks of doing nothing. Are owners holding reins too tight or too long? Are they holding back on making decisions? The result might be stagnating businesses; the failure to pursue opportunities or invest in maintaining competitiveness; or the loss of a frustrated next generation of middle managers and even a decline in the prospects for the business and the value of that business?
- **The role of Management & Family:** Management can and do play a huge role in change internationally - yet only 15% of owners see them as a preferred exit despite 57% feeling that they are both capable of and interested in taking over. This raises some serious questions – do owners understand the role management can play – particularly in staggered succession, and do managers understand the opportunity? In regards families – is handing down to family a dying or unrealistic goal? While 22% see family as preferred exit mechanism, we wonder if this is realistic when, in our experience, many children are less enamoured by the prospect of taking over the reins than their parents anticipate.

Growth

- **Barriers to Growth - are owners holding back?** While growth is expected, we wonder whether growth aspirations match potential opportunities. While some owners do decide that they've reached a level of comfort and are willing to relax their growth aspirations, we suspect other factors are helping establish artificial barriers between owners and the absolute potential of their business growth. Time constraints, a lack of knowledge, a shortage of advice, lack of funding, risk aversion may all be factors that may result in many companies not achieving their full potential.
- **Role of Boards – much more than just good governance?** Are Boards under-utilised? Clearly boards can offer more than just governance – in particular defining growth strategies, yet 1/3 of companies have no boards at all; only 1/2 meet regularly; and only half have independent directors. We wonder whether the lack of support from such boards might be constraining the growth potential of some companies.
- **Growth by Acquisition – sounds good but why not more?** We're in a consolidating market, yet only 17% of companies considering growth via acquisition, and most say capital no constraint - conflicting with the fact that when offered more capital, half of respondents would acquire / expand if more money available. This anomaly that needs to be better understood.