



Media Release

For Immediate Release

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Private business in growth mode says ANZ Privately Owned Business Barometer – but is the growth fast enough for NZ?

Privately-owned businesses, regarded as the engine room of the New Zealand economy, are still in growth mode despite heightened volatility in world markets.

However, succession of ownership has become an even more significant issue for business owners.

The ANZ Privately-Owned Business Barometer released today is the only in-depth study of the sector that accounts for over one quarter of domestic sales.

The findings from this year's report suggest that most owners are confident about prospects for their own business and are focused on achieving modest organic growth in the short and medium term.

This, the second ANZ Privately-Owned Barometer, also found:

- a willingness to take on debt and risk to achieve growth, but much reduced appetite for initiatives that could lead to accelerated growth – for example via mergers and acquisitions or international expansion;
- owners wanting to release time and capital from their businesses, and growing demand for alternatives to outright exit – but many are yet to start planning for that outcome, or identify a successor;
- owners are clearly aware of the issues and opportunities relating to effecting change within in their businesses (ie growth plans, succession), but there's a worrying lack of active planning;
- an apparent reluctance to use external expertise to shape plans for growth or change – despite increased awareness of the benefits of different ideas and perspectives.

"Clearly it's a difficult and challenging environment, but from a strategic perspective there's no better time to make big gains than when competitors are equally challenged," says Nigel Williams - Managing Director, ANZ Institutional Corporate & Commercial.

"Change brings opportunity. The volatility now evident in markets will be used by many to re-evaluate strengths and sharpen the focus on future direction."

The survey demonstrated that New Zealand's privately owned businesses are predominantly well established with 85% of the businesses surveyed having been in existence for more than 10 years, and 31% for more than 30 years. They are also significant creators of jobs and wealth with over half having an annual turnover between \$11m and \$40m, and three quarters employ more than 20 full time staff.

The contribution of these successful businesses is rarely recognised nor fully appreciated, Mr Williams says. "The challenge for the sector is to look beyond organic growth and seize the prospects that exist in the current environment."

"In particular, we're seeing an increasing number of consolidation opportunities across a range of industries, with the decision by some owners to exit presenting acquisition opportunities for those looking to grow faster."

Booming economies along with completed and prospective free trade agreements in Asia also provide a once in a generation opportunity for businesses to expand into new markets.

Succession – both a risk and an opportunity

Among the other findings, succession has become even more important. Nearly two-thirds of respondents see it as an issue (up from 48% in 2007), but only 17% have taken steps to address it. Identifying a potential successor is a major issue, suggesting that the focus should be on "who" will succeed rather than "how" it will be accomplished.

"There are both risks and opportunities for owners in regards to succession," Mr Williams says. "The risk of doing nothing is significant. Evidence suggests that this can often result in destruction of value of the very asset owners are looking to protect. But the opportunities are also significant.

"Succession can mean far more than just selling up. We want owners to start seeing succession as a journey rather than a destination, and that a staggered succession is a very real prospect - gradually releasing time and capital on the way to what might be an eventual exit."

Business owners must take action – plan for the future

"We can't overstate the importance of planning" says Williams.

"We urge business owners to take a long term view of the opportunities for themselves and their business. As with any business plan, it's about identifying what success looks like for them, and then building a plan to that point. Banks and financial institutions will support strong businesses."

"As banker to over 35% of New Zealand's privately-owned businesses, we feel a strong responsibility to do what we can to help owners take practical steps to grow their businesses, manage their risks and maximize their wealth" Mr Williams says.

"As the Barometer findings show, business owners are aware of these issues, but we're concerned by the lack of progress in actually grappling with the task. Our real fear is that by not making plans business owners will limit the opportunities for themselves, their families and their businesses - and thus the wider New Zealand economy."

ANZ will continue its investment

ANZ is committed to this sector and will continue to provide services and products that will support businesses. This includes the establishment of a specialist team comprised of experts in business planning and wealth management. This team can help owners identify the possibilities for their business and help them plan for those outcomes. The bank will also continue to invest in the ANZ Privately-Owned Business Barometer next year.

Media Contact:

Virginia Stracey-Clitherow
Senior Manager – External Communications
Phone 09 374 4051 or 0275 618 995



ANZ Privately-Owned Business Barometer 2008 SUMMARY OF FINDINGS

Growth

- Organic growth is expected to fuel short term growth; 89% are optimistic about their own 3-year prospects.
- 34% would consider accelerated growth by acquisition, international expansion or joint ventures.
- Execution factors are the constraints on faster growth: lack of time (the biggest concern at 54%) skilled labour shortages (46%), lack of capital (38%), lack of skilled management (32%).
- Smaller companies (less than \$21 million turnover) feel constrained by lack of opportunities and advice (in both the short and medium terms).
- Larger companies feel more restricted by aversion to debt and lack of time in the short term; in the medium term, comfort with status quo and lack of capital are the prevailing factors.
- Debt risk was not perceived as an issue by respondents; 78% are comfortable with debt and risk, and half have a strong risk appetite.
- If capital was unlimited, 68% would accelerate growth plans.

Change

- 45% of owners aspire to retirement in the next five years.
- 63% cite succession as an issue (48% in 2007); 14% consider it a big issue.
- 56% are actively considering succession but only 17% have a formal plan in place.
- Sale to a trade player is preferred by 74%.
- An even split between consideration of staggered versus outright exit.
- Two thirds of owners wish to release time and capital from their business.
- Private equity investors gain in popularity; 53% would consider (19% in 2007).
- 40% of owners likely to consider management as successors.
- Identifying "who" will be the successor is a bigger issue than "how" to effect succession.

Governance

- A third of respondents have no Boards but of those that do, composition has improved. 87% conduct formal board meetings and 71% have at least one "independent" director.
- Strategy and independence are widely considered as the most important attributes of a Board.
- 68% feel advisors can add significant value and 66% value their independent thinking.
- 62% have engaged an advisor in the last two years and 80% say they have benefited.
- But engagement of outsiders is low; 60% are not interested in using independent directors or advisors.

About the Survey

The ANZ Privately-Owned Business Barometer 2008 is based on survey targeting owners of just under 1500 privately-owned businesses with annual total revenue in the range of \$5 million to \$150 million, undertaken on behalf of ANZ by Colmar Brunton.

The response rate was 21%, or a total of 306 responses, similar total numbers to the 2007 survey. ANZ customers comprised 36% of respondents, National Bank of New Zealand customers 37% and 27% were customers of other banking and financial institutions.

The complete ANZ Privately-Owned Business Barometer 2008 is available at:
www.anzbarometer.co.nz (from 9am, Wednesday 15 June).

Media Contact:

Virginia Stracey-Clitherow, Phone 09 374 4051 or mobile 0275 618 995.