THE ALLEASING

# EQUIPMENT DEMAND INDEX

## SO MANY ASSETS
## SO MUCH POTENTIAL

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NEW ZEALAND

# SO MANY ASSETS SO MUCH POTENTIAL

New Zealand businesses own assets valued at more than two times the nation's GDP, a large percentage of which have the potential to be financed through alternative capital structures, with the advantage of unlocking cash.

The results from this edition of the Equipment Demand Index (the Index) have been combined with official data from Statistics New Zealand to create a picture of an economy which, although confident and growing rapidly, has even more potential for investment and growth.

According to the most recent data from Statistics New Zealand, the country's businesses currently hold assets valued at nearly $1.8 trillion, $992 billion of which are financial assets held by the finance and insurance sector*. This leaves a figure of just over $800 billion in non-financial assets held by all New Zealand businesses.

This round of the Alleasing Equipment Demand Index found that, on average, businesses lease 16.0 per cent of their asset base. This equates to approximately $128 billion of business assets which are leased, rented, or otherwise financed and not owned. While the figure may seem large, it means that New Zealand businesses have owned assets worth around $672 billion, which equates to more than twice the national GDP of $255 billion.

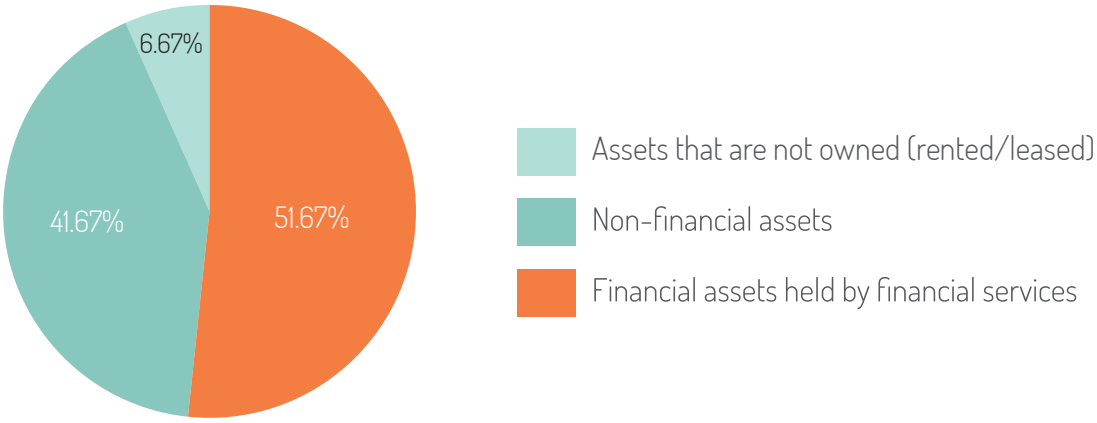
Interestingly, 13.0 per cent of businesses own assets they would like to re-finance through new capital structures. Given there are $672 billion of owned assets in the system, this suggests a significant opportunity.

It is worth noting that not all of these assets could or would be leased or financed, but even re-financing a small percentage of assets would release funds back to business for day to day cash flow, or to fund further investment or growth.

The research also revealed that New Zealand businesses are more likely than their Australian cousins, to buy assets outright with their own funds. Self-reliance and independence are national traits of New Zealanders, and this extends to the nation's business culture. However, this may not always be the best strategy when appropriately structured capital solutions may be able to free up funds for growth and investment.

*Non-financial assets are classified as machinery, equipment, transport vehicles, non-residential buildings, marketing assets etc. as stated by Statistics New Zealand.

Ownership of Assets



# AN INVESTMENT WAVE CONTINUES TO BUILD

All the economic indicators look positive for the New Zealand economy in 2017, with growth tracking at 3.6 per cent, one of the highest rates in the developed world.

A number of indices, including the Alleasing Equipment Demand Index, which monitor business and consumer confidence, are at their highest levels in several years. New vehicle registrations hit a new record in December 2016 with registrations up 9.5 per cent. Horticulture exports have surged 40.0 per cent since November 2014.

In addition, for the first time since the Index began in August 2015, more than half of businesses said they plan to increase their asset base in the first quarter of 2017. At the same time, only 3.0 per cent of businesses plan to decrease their asset base and by only 3.4 per cent.

In this round of research, the Index included a segment of larger businesses (upper corporate) turning over between $100 million and $250 million a year, and this segment proved to be the most bullish. Fifty seven per cent plan to increase their asset base this quarter.

This compares to 55.2 per cent of SME businesses (with turnover of between $5 and $20 million) while lower corporate businesses (turnover $20 to $100 million) continue to be the least optimistic, with 41.5 per cent planning an increase.

Among the regions, Auckland and the rest of New Zealand (which includes the Bay of Plenty) lead the way, with a respective 53.4 per cent and 52.3 per cent of businesses indicating plans to increase assets. Of the other regions, the results were 48.9 per cent in Wellington and 46.9 per cent in Christchurch.

The agricultural sector is the most bullish by far, with 62.5 per cent of businesses citing plans for an increase. Manufacturers are also feeling optimistic, with 51.4 per cent looking to increase the asset base.

Percentage of Businesses Intending to Increase Asset Base in Q1 2017

# WHEN FUNDING ASSETS SELF-SUFFICIENCY RULES

New Zealand businesses are nothing if not self-sufficient.

When asked where the funds for new assets came from, the most popular response was that equity – either from shareholders, off-shore parent companies or from cash generated by the business – would finance the purchase.

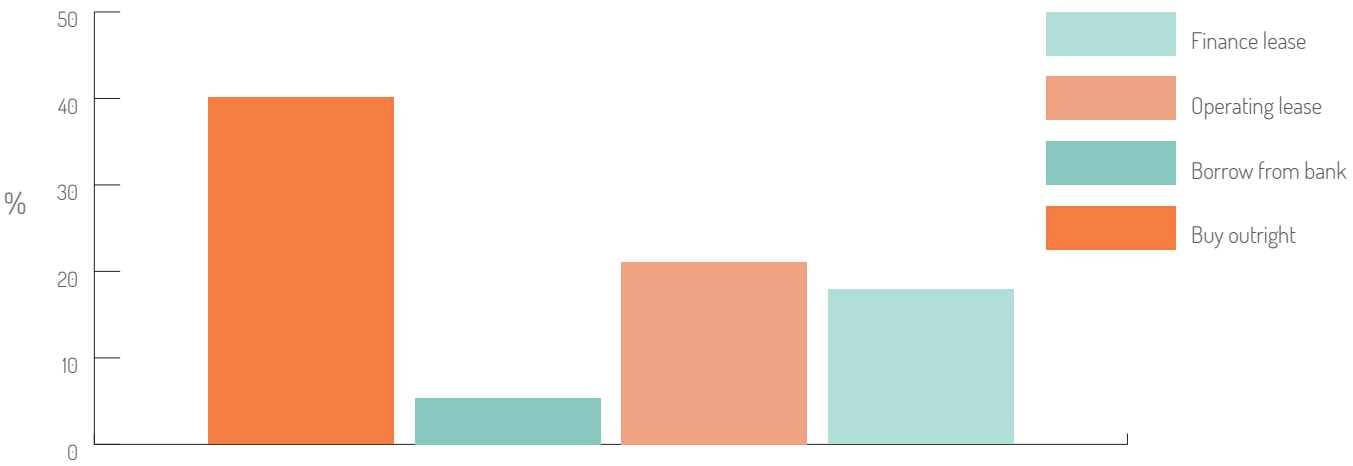
A substantial 46.8 per cent of businesses planning to increase their asset base in Q1 of 2017 cited equity as the source of funds to purchase new assets. This was followed by 35.9 per cent nominating senior debt as their choice. Several companies said they will use a combination of the two. Less popular are loans from the bank (13.2 per cent) and funds sourced from a leasing or finance provider (8.5 per cent).

Senior debt, however, did not appear to be as much of an option for businesses in the SME segment. More than half of SME businesses (52.8 per cent) that plan to increase assets are relying on equity, with senior debt comprising a below average 22.6 per cent. SME's are also more reliant on leasing finance providers (11.5 per cent) and banks (13.2 per cent) than larger organisations.

When it comes to acquiring assets, buying outright remains the most popular choice by some distance. Of all businesses that are planning to increase assets, 39.8 per cent say they are choosing to buy outright, with another 5.4 per cent opting to borrow from their bank to buy assets. Following this, the next most popular options are operating leases, cited by 21.1 per cent, while 17.9 per cent have opted for finance leases.

Reflecting the cash flow pressures which concern many SME's, this segment is more likely to use other financing as a means of acquiring assets. Of those surveyed, 28.3 per cent of SME's say they will use finance leases, with another 26.4 per cent choosing operating leases for their assets. In comparison, 30.0 per cent of SME's say they will buy the assets outright, a figure well down on the Index average of 39.8 per cent. At the other end of the scale, 46.3 per cent of upper corporate businesses planning to increase assets indicate they will buy the new assets outright, compared to 47.0 per cent of lower corporate businesses who also plan to do this.

How Businesses Intend to Fund Assets



# THE PRESSURE IS ON

Across the businesses surveyed in the Index, 19.6 per cent reported that capital constraints are hampering their expansion. This could be due to the overall prevalence of businesses preferring to buy their assets outright as opposed to using alternative capital solutions for funding.

When comparing each segment, it is the smallest and largest businesses which report the most impact. More than 20.0 per cent of upper corporates and SMEs say capital constraints are hampering them, against a lesser 17.1 per cent of lower corporates.

In terms of the regions, the situation was more acute for businesses in Wellington and Christchurch, with the percentages at 24.0 and 25.0 per cent respectively. Reflecting their bullishness in other areas of the survey, capital constraints are significantly less of an issue for businesses in Auckland (18.4 per cent) and even more so in the Rest of New Zealand (15.4 per cent).

Despite, or perhaps as a result of, the expansionary intentions shown elsewhere in the data, the agricultural and manufacturing sectors are where capital constraints are more keenly felt. For example, 26.7 per cent of agricultural companies, and 25.7 per cent of manufacturing businesses cited capital constraints as an issue.

When asked to explain how constraints are restricting them in practice, almost half of businesses said they would like to make an acquisition, but lacked the funds to do so. This means that around 10.0 per cent would like to execute a merger or acquisition. Extrapolated across the wider economy, the impact of enabling even a portion of these businesses to execute their M&A plans could be transformative.

The second most popular response was, predictably, a lack of access to sufficient capital or credit, cited by 42.8 per cent of businesses.

This raises two key questions:

1. Is the popularity of buying assets with internal company funds or equity partly driven by a lack of options?

2. Are these companies using their own funds because they are unable to access finance?

To increase the percentage of assets which could be financed through alternative means, which currently sits at 16.0 per cent, would require significant funds for asset and equipment finance. However, doing this has the potential to free up businesses and create a more dynamic business sector.

Percentage of Businesses in Each State Impacted by Capital Constraints

# IN SUMMARY

New Zealand businesses are indicating that asset base increases are coming and that they have clear plans for growth. The significant majority of this investment is in new assets, not replacement, so it would seem that businesses are "re-tooling" for a phase of substantive expansion and transformation.

Sentiment is boosted by a number of benign economic factors, which have combined to create a positive environment, and one in which businesses feel confident to invest in their immediate and longer term futures.

This round of the Alleasing Equipment Demand Index resonates very strongly with other indicators on the health of the New Zealand economy, which is tracking at 3.6 per cent after five consecutive quarters of growth. The domestic market is expanding as the population grows, and exports are growing at their fastest in two decades. As the Index shows, New Zealand businesses are responding to this and are preparing for a wave of new investment.

The question remains, however: are there structural inefficiencies in the way capital is distributed to businesses?

Using business funds and shareholder equity to fund growth is only one option, the question remains as to whether it is the best approach. If funds were distributed more efficiently from banks and financial services providers, the impact could be transformative.

Businesses are not only being restricted in their desire to expand through M&A, their dependence on their own sources of financing are an impediment to growth. Independence and self-reliance might be a virtue, but in terms of economic growth they can also be stifling.

The Index shows that although New Zealand businesses are preparing to seize their opportunities, there is so much more potential for growth which is not being utilised.

# ABOUT

The Alleasing Equipment Demand Index is a quarterly index, which examines the current asset inventory of New Zealand businesses, as well as expectations for future investment. The inaugural Index was run during July and August 2015.

Each quarter, around 250 New Zealand businesses that turn over $1-100 million per annum are surveyed. These businesses have been broken into three segments, SME ($5-20M annual turnover), lower corporate ($20-100M annual turnover) and upper corporate ($100-250M annual turnover).

The Index is executed by Collins Communications on behalf of Alleasing.

Alleasing is a leading, independent provider of asset finance and leasing solutions. Established more than 25 years ago, we have financed billions of dollars' of assets across a range of sectors, and business sizes.

Our focus is on supporting businesses to achieve greater productivity and growth through effective management of their assets, and we are prepared to invest in helping you do this via a residual position in the assets.

Our team is driven to deliver solutions that meet your business needs and which provide operational flexibility. This includes the ability to acquire, change or expand your asset base as the need arises.

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