THE ALLEASING

EQUIPMENT DEMAND INDEX

TECHNOLOGY PAVING THE WAY IN NEW ZEALAND

JUNE 2017
NEW ZEALAND

LONG ROAD TO RECOVERY

It has been nearly six years since Christchurch was devastated by a massive earthquake, which took 185 lives and caused severe disruption to the economic life of the city.

Initially, the economic impact was assessed to be $6.5 billion but has since been revised to be as much as $30 billion, after factoring in the long term impacts of business disruption, insurance administration and the costs of rebuilding.

Even now, we continue to see signs that Christchurch is lagging behind other regions. Our latest Equipment Demand Index reveals that 44.8 per cent of businesses plan to acquire new assets in the third quarter of 2017.

Of the four regions, businesses in Auckland are the most bullish, with 47.8 per cent planning to add assets, closely followed by the rest of New Zealand (44.7 per cent) and Wellington (43.1 per cent). For Christchurch, the result stands at 39.3 per cent

The national average increase among businesses planning to add to their asset base has risen to 6.8 per cent. Auckland businesses are in the lead, with businesses planning to increase their asset base by 7.3 per cent, whereas those in Christchurch plan to do so by a lower 6.1 per cent.

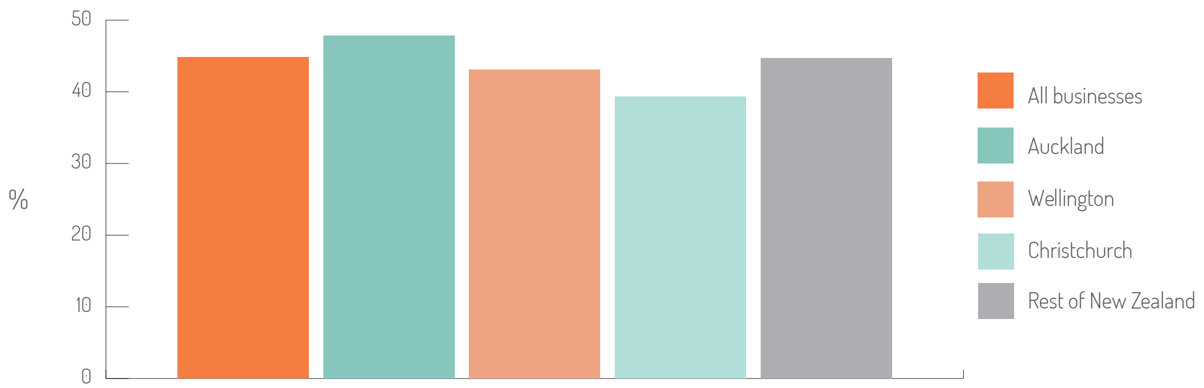
Almost sixty per cent of businesses in the accommodation/cafes/restaurant sector said they plan to acquire assets in the September 2017 quarter, much higher than the 44.8 per cent national average. However, in comparison to the results for this sector in our previous report, "Business Big on Confidence," a higher seven out of ten intended to add assets.

The likely reason for the trend in this sector is New Zealand's increasing popularity with Chinese tourists. In the past twelve months, 400,000 Chinese tourists have visited, the second largest group after 1.4 million Australians.

In April a deal was announced between Christchurch Airport and Chinese e-commerce giant Alibaba, which aims to connect more South Island businesses to the payments gateway by opening a virtual store on Alibaba's Tmall Global website.

The Christchurch Airport-Alibaba deal has the potential for Christchurch and other South Island businesses to expand into the Chinese economy, which could help the city recover more quickly. Only time will tell how this will come to fruition over the coming years.

Asset Acquisition Intentions by Region



NEW ZEALAND EMBRACES A TECHNOLOGICAL REVOLUTION

The world is on the cusp of a new era in automation and technology, led by the so-called "Internet of Things" and the continued evolution of Cloud computing. Dubbed "Industry 4.0," the wave of technology and innovation has the power to transform manufacturing and create new business models across multiple industries.

The Index is already showing that New Zealand businesses are adding "Industry 4.0" technology to their businesses, with momentum growing over the course of this year. While the acquisition of traditional assets such as cars and trucks remains steady, new technology is on the rise and Index data shows it's only going to increase.

In the most recent round of the Index, 13.4 per cent of all businesses said they are planning to invest in big data, artificial intelligence or drone technology. This has grown from 10.2 per cent in our previous report for the June quarter "Business Big on Confidence," and 7.9 per cent in our March quarter report, "So Many Assets, So Much Potential".

At the same time, the number of businesses investing in services and process automation is also growing, with a national average of 5.3 per cent intending to invest during the September quarter.

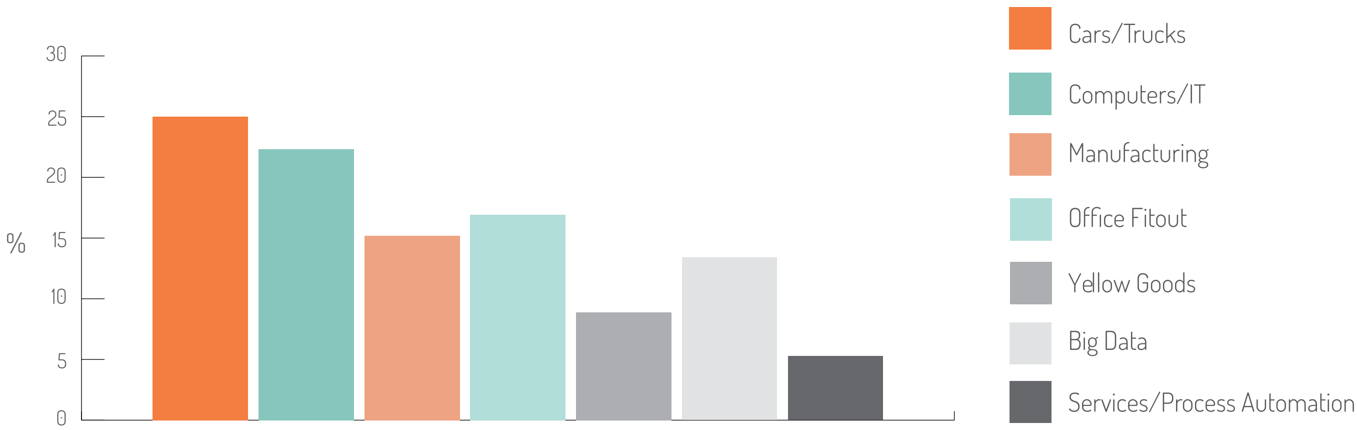
Further investigation of the Index results reveals which businesses are making these investments and has found that agriculture, a major driver of the New Zealand economy, is intending to invest the most.

Agribusinesses continue to be the most ambitious when looking to acquire assets, with 44.8 per cent intending to expand their asset base and 53.3 per cent in the forestry industry.

Of the agricultural businesses planning to increase assets, 25.0 per cent say they will invest in big data, artificial intelligence or drones, while 12.5 per cent will invest in services/process automation. The national average is 5.3 per cent.

Through these results, the Index shows that New Zealand businesses, even those from the "old" economy, are embracing the new.

Assets Marked for Acquisition



CUTTING THE COST OF BUSINESS

The Index reveals that larger businesses are leading the charge towards next generation technology with 20.0 per cent citing their intentions, compared to a national average of 13.4 per cent.

It would appear that larger businesses are moving faster to embrace Industry 4.0 technology than any other size of business. However, larger businesses tend to have access to wider pools of funding than SMEs and lower corporates, leaving this an unsurprising result.

A total of 22.3 per cent of New Zealand businesses plan to acquire computers and IT assets during the September quarter, the majority of which are SMEs. So while the smaller end of town is investing in traditional IT, the bigger end is moving towards more transformational technology at a faster rate.

But what do New Zealand businesses feel are the advantages of upgrading their technology?

Almost half of respondents (48.0 per cent) said the main advantage is improved cost control, with 19.2 per cent citing new technology being able to lower maintenance costs. This was the most popular response, ahead of business growth (40.4 per cent) and the ability to develop new products (35.8 per cent).

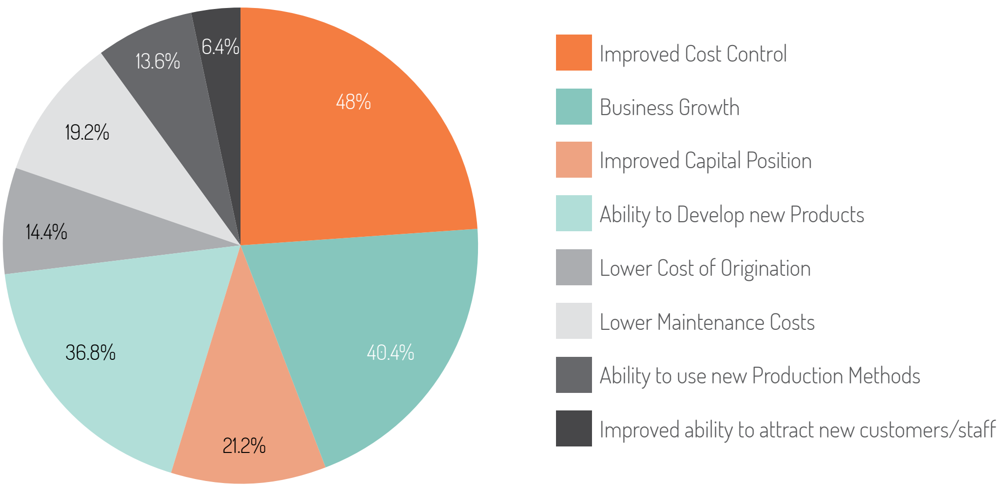
This view is further emphasised by the 21.2 per cent of respondents who said the advantage of acquiring new technology was the ability for their business to improve their capital position. A further 14.4 per cent cited a lower cost of origination as an advantage.

In an age where energy costs are increasing and what many feel is an uncertain economic and political climate, responses show that technology is not only seen as the key to transformation, but the key to controlling costs.

Next generation businesses might look different in terms of the assets they use, but some things are not changing and one of these is the focus on cost.

Technology can drive change, particularly in the hands of start-up businesses, but for those who are more established, technology is a tool to become leaner and more capital efficient.

Benefits of New Technology



*Respondents were asked to select two answers.

PATHWAYS TO GROWTH

In seeking to grow, businesses face many challenges and one of the most fundamental is capital. Organic growth is always welcome but it can only take the business so far. To go from a small to a large firm requires capital to invest in growth, be that through corporate acquisition, new equipment or hiring new staff. However, accessing capital is not always easy, and as a result, restricts the business from operating to its full potential.

More than five in ten (54.8 per cent) businesses cite the "cost of capital" as their most challenging constraint, a response which far outweighs any other limitation. In second place was "difficulty accessing capital," which was nominated by 30.4 per cent of respondents.

Breaking that down by business size uncovered some significant differences. For SME businesses, the number identifying "difficulty accessing capital," stands at 36.6 per cent, against 22.0 per cent of upper corporates.

For larger businesses, which do not see accessing capital as an issue, the cost factor is more important. Where 49.7 per cent of SME's nominate the cost of capital as the most serious constraint, for upper corporates the figure is 57.1 per cent. This is an interesting response when normally it would be assumed that the cost of capital for an upper corporate business would be less of an issue. Could it be that upper corporates are beginning to feel the pinch elsewhere in the business and are compensating by reducing how they access capital altogether?

Almost one in five businesses (19.2 per cent) confidently report that they have no capital constraints, a response mainly from larger businesses. Where a full quarter (25.9 per cent) of upper corporates say they feel no constraints around capital, the result for SMEs is a significantly smaller 9.7 per cent.

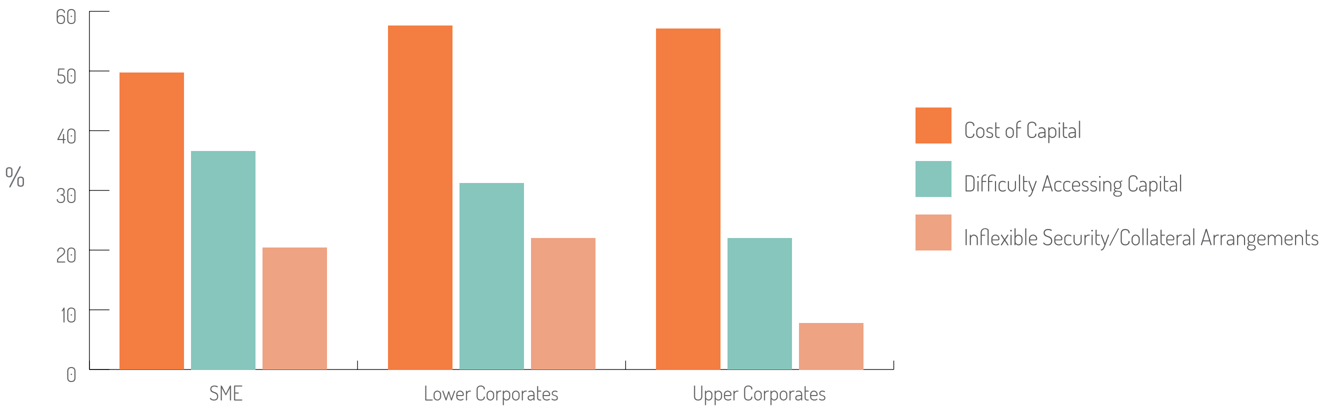
When asked where businesses first go to access funds, 29.4 per cent responded with equity or shareholders. This was followed by debt from a bank or finance provider (23.4 per cent) and new equity from shareholders (18 per cent).

Again, there was a wide disparity between larger and smaller businesses. Where 38.7 per cent of SMEs will use their own equity to expand, only 16.9 per cent of upper corporates will take the same route.

With access to debt capital markets, 12.9 per cent of upper corporates will consider a corporate bond, while SMEs do not see this as an option.

While 5.4 per cent of SMEs believe there is no way they could access funds to grow, no upper corporates gave this response.

Top Three Concerns When Accessing Capital



SUMMARY

Index research for the September quarter suggests that New Zealand business is still largely in expansion mode, and that the economy will continue to tick along into 2018.

March quarter growth, according to Statistics New Zealand, was 0.5 per cent, while Treasury forecasts put annual growth for 2017 at 2.9 per cent, rising to 3.2 per cent in 2018.

So far, all three reports (including this edition) of the Index have found that New Zealand business sentiment is positive.

In this edition of the Index, a national average of 44.8 per cent plan to increase their asset base during the September quarter by an average of 6.8 per cent. After results of 51.2 per cent and 46.8 per cent in the previous two quarters, this is the weakest result for 2017 but, is still a pointer to growth.

Compare the 44.8 per cent result in New Zealand with Australia, where the score is 28.8 per cent, in Australia there has been only one quarter – the June 2017 quarter – with a result above 30.0 per cent. Although New Zealand is the smaller of the two, it is showing far bigger ambition than Australia when it comes to business.

The Index shows some ongoing trends. Our research continues to show that the smallest – SME businesses – and the largest – upper corporates – are more positive than the middle segment of lower corporates. In this round, for example, 45.5 per cent of upper corporates plan to add assets, against 41.3 per cent of lower corporates.

We have already seen disparities between regions, with Auckland and the Rest of New Zealand continuing to deliver more positive results than Christchurch and Wellington.

In terms of sectors, retail continues to post lower figures, with businesses less prepared to acquire assets. Against the 44.8 per cent national average, a lower 36.3 per cent of retailers say they intend to add to their asset base. This alone demonstrates a structural change and transition in a dynamic economy.

Overall, New Zealand's economic fundamentals around strong exports, population growth and a strong tourism and services sector are continuing to encourage businesses to acquire more, technologically developed assets. Could 2018 be the rise of the robots for New Zealand?

ABOUT

The Alleasing Equipment Demand Index (the 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 2014.

The Index comprises research from three segments: SME's turning over NZD$5-$20M, Lower Corporates turning over NZD$20-$100M, and Upper Corporates turning over NZD$100-$250M.

This round of the Index was created from interviews with 250 New Zealand businesses in December 2016.

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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