

Case study: Mercer

NZECO solution: Secure Export Sales / Access Trade Finance

NZECO product: Loan Guarantee

Sector: Manufacturing

Innovative loan secures Mercer slice of export market



For a multi-million dollar export company, this was admittedly a relatively modest sale. Mercer Group Limited's Titan Slicer sold for less than NZ\$200,000 and went to an established Australian client.

But that single transaction may one day be viewed as a milestone of lucrative innovation for the 130-year-old New Zealand company. The sale ticked many of Mercer's strategic boxes. It is focused on growing sales of the Titan Slicer – a suite of world leading slicing equipment for food manufacturers - and expanding sales of this equipment from Australasia to Europe and the United States.

But slicers, that can sell for in excess of \$700k, are too expensive to make on 'spec'. Mercer's Australian customer wanted a loan to buy the slicer, and the terms had to enable the buyer to pay off the piece of machinery through 30 monthly installments. It was essentially a lease-to-buy arrangement, which was more attractive to the buyer than upfront capital expenditure.

Because under the terms of the sale, the operating lease could be terminated after a minimum period, the cash flow from the repayments could not be relied upon, and without additional security, funding the sale could not be done within existing lending arrangements.

This is when the New Zealand Export Credit Office (NZECO) entered the discussion. The sale was there for the taking, but without additional funding the sale would be lost. NZECO had recently broadened the scope of some of its products in response to the Government's Business Growth Agenda.

The old 'working capital guarantee' product was expanded and loan guarantees are now part of NZECO's offering. It took 6 weeks for NZECO to conduct due diligence in relation to the exporter and the transaction, and offer BNZ a guarantee over the loan to Mercer.

NZECO head of business origination Peter Rowe says loan guarantees are against the performance of the New Zealand business, so companies applying for NZECO assistance must be willing to open their books to NZECO in order to allow NZECO to undertake due diligence if they want Government support.

"We are supporting Mercer, not the overseas buyer," he said.

With the backing of a New Zealand government loan guarantee, and the beneficial repayment conditions that support created, the buyer signed up.

In fact, chief financial officer Tobin Blathwayt believes NZECO's loan guarantee product could prove just the enticement to get many potential customers across the line.

“I believe a number of our customers will bite,” he says. “This gives us an opportunity to boost sales into overseas markets, as our customers would enjoy the significant savings from the machinery in advance of the cash payments for the slicers.”

Given the original sale was for a cheaper Titan Slicer, and the more sophisticated models sell for at least \$700,000, the machinery is rapidly becoming a more significant portion of Mercer’s revenue.

Mercer Group Limited was established in 1884 and has been listed on the New Zealand Stock Exchange for 25 years. Annual sales – from equipment manufacture, kitchen sinks to dairy silos - exceed \$40 million and are on an upward trajectory. Export markets include The United States, Canada, the United Kingdom, Europe and Japan.

For Mercer, the loan guarantee has established a template for future operating lease sales; a system which could prove valuable in maintaining cash flow if several sales were to be secured at once which in aggregate would create cash flow pressure.

NZECO says the Mercer transaction has proven the worth and potential of the Office’s new loan guarantee product.

Mr Rowe says: “This was the first time we’d used this product to support an Operating Lease structure and we could immediately see the potential for operating lease loan guarantees to be used by all sorts of New Zealand exporters.”

BNZ Corporate partner Evan White says the bank was happy to collaborate with the NZECO to support Mercer. “Naturally, the bank is right behind this kind of support for businesses. In this case, NZECO’s backing has enabled my client to secure a sale overseas, which is great,” Mr White says. “I hope this will be the first of many such deals as Mercer grows its exports.”

“The Export Credit Office offers a good service and one which is very important.”

www.mercers.co.nz/

NZECO contacts:

Tel: +64 04 917 6060

Email: nzeco@treasury.govt.nz

This document is available at www.nzeco.govt.nz