

TIN soldiers positioned for comeback

by Chris Keall | Tuesday October 7 2008 - 05:11pm

The global market crisis has hit tech as hard as any sector. But even before the current storm, New Zealand-based technology companies were facing headwinds, the Technology Investment Network (TIN) 100 2008 report finds.

Co-sponsored by Ernst & Young and New Zealand Trade and Enterprise, the TIN report ranks the top 100 New Zealand-based technology companies by revenue, profiles members, examines trends, and slices and dices data by market sector.

Its 2008 instalment, hot of the press, finds total TIN sales revenue growth declined to 5%. Fisher and Paykel Appliances – No 1 on TIN's chart – suffered a 1% decrease.

Profit before tax fell 33% for listed TIN companies, and there was a "significant increase" in business failures as telecommunications company Argent Networks, aircraft manufacturer Alpha Aviation, biotech company ICP Bio and software company Compudigm went into receivership, and vending company VTL was affected by the collapse of its finance subsidiary Nathans.

The New Zealand dollar also took a toll. TIN managing director Greg Shanahan points to the case of F&P Healthcare, which grew 18% in US dollar terms but just 3% by the Kiwi. "Its underlying performance not reflected in New Zealand dollar terms," Shanahan says. Both exchange rate volatility and the absolute exchange rate weigh against TIN's tech exporters, he says.

Comeback kids

Ironically, the current market turmoil also sets the scene for TIN 100 companies to make a comeback, Shanahan says, as raw material prices fall, and the declining New Zealand dollar makes tech exporters more competitive.

Shanahan also sees TIN 100 companies growing through acquisition, though the 2008 report finds a number of TIN members were themselves consumed as dental software company Software of Excellence, veterinary products company Ancare, IT company Infinity and industrial control equipment maker Vectek and software company Q4B fell into foreign hands (companies bought by offshore investors stay on the TIN 100, says Shanahan, as long as most of their operation stays in New Zealand).

And while the new report details tougher times for many, Shanahan says double-digit growth stories are also common, citing Rakon, Douglas Pharmaceuticals, Methven, Endace, Wellington Drive Technologies, Orion Health, Intergen, Vista Entertainment Solutions and Next Window as examples.

Since the report was finalised, the picture continues to get rosier for some of those companies. Wellington Drive Technologies has gained Energy Star certification from the US government, giving it a leg up in the green building market for its energy efficient motors, used in refrigeration and ventilation systems; Orion is hiring up to 200 new developers for its Mt Eden, Auckland headquarters as it chases large US healthcare contracts, and Next Window, a supplier of touchscreen technology to world number one PC maker HP, should be positioned to benefit from the next upgrade to Microsoft's operating system, which will make touch technology central to [Windows](#).

For others, the inevitable slowdown in tech could pose problems. However, outside of the immediate challenges and opportunities of the current credit crisis, there are long term macro trends that TIN 100 members have to deal with.

TIN's 2008 report finds a rapid decline in local tech manufacturing. More than 1400 tech manufacturing jobs have been lost offshore as F&P Appliances moved the bulk of its assembly operation offshore, and F&P Healthcare shaped up to follow suit.

Fellow TIN 100 companies Humanware and Dynamic Controls are among others that have moved manufacturing offshore, while Rakon has announced plans to potentially double the capability of a new joint-venture factory in Shenzhen, China.

The jobs are never coming back. "New Zealand has priced itself out of the international manufacturing market," says Mr Shanahan, who predicts off-shoring will accelerate.

But while a shift to higher-end service jobs is desirable, there's still a way to go. The long-term implications of manufacturing moving overseas have yet to be felt by the NZ tech sector, says Mr Shanahan. "New Zealand tech companies have traditionally enjoyed the advantages of compact organisation, with small, tightly focused, multidisciplinary teams that can quickly bring value-added products and services to market."

Now, their challenge is to adapt to the logistical challenges that come with offshore manufacturing, and teams spread around the globe.

TIN's top 10

The largest New Zealand-based technology companies, by revenue. NDA (see "TIN's 10 to Watch," below), debuting on the index at 5, and Rakon, moving from 13 to 7, were the two big movers.

Company	Sector	2007/2008 revenue (\$000)
Fisher & Paykel Appliances	Home appliances	1,406,345
Datacom	Computer services	\$450,000
Fisher & Paykel Healthcare	Medical devices	\$357,900
Navico*	GPS navigation	\$388,000
NDA	Industrial fabrication	\$240,000
Provenco/Cadmus Group	Eftpos systems	\$184,000
Rakon	Frequency control technology	\$174,292
Gallagher Group	Agriculture, security, fuel pumps	\$150,000
Weta	Digital special effects	\$150,000
Tait Electronics	Radio communications	\$124,000

* Singapore-based purchaser of Navman

TIN's 10 to watch

Tech companies that clocked double-digit growth during 2007/2008 (ranked by revenue).

Growth leader NDA was also the highest new-entrant on the TIN 100, debuting at number 5. The privately-held Hamilton company rode the dairy export boom, and also grew through its acquisition of US chemical sector industrial services company Southern Heat Exchanger Corporation.

Company	Growth
Datacom	15.4%
Rakon	64.6%
NDA	140.0%
Douglas Pharmaceuticals	19.0%
Methven	63.0%
BCS	27.3%
Orion Healthcare	38.2%
Flotech	33.9%
Endace	42.7%
Wellington Drive Technology	46.3%