

Falling dollar set to benefit tech sector

4:00AM Wednesday Oct 22, 2008

By Adam Gifford

New Zealand technology firms could be well placed to weather tough economic times, as a more favourable exchange rate boosts earnings.

The latest Technology Investment Network analysis estimates the total revenue of the top 100 tech companies at \$6.4 billion.

"Some 75 per cent of that is from exports, it's not internally generated revenue," says Greg Shanahan, the network's managing director.

Most of the companies are in the business of making products rather than software, so a big question for the future is where will manufacturing be done, as firms try to control costs and risk.

Fisher and Paykel Appliances, the largest firm on the list with revenue of \$1.4 billion, moved the majority of its manufacturing offshore during the year, and its spin-off Fisher and Paykel Healthcare is considering a Mexican plant.

F&P Appliances' revenue dropped 1 per cent during the year, while F&P Healthcare could only manage 3 per cent growth in New Zealand dollar terms, as exchange rate fluctuation knocked back the effect of its 18 per cent boost in US dollar sales.

Overall, growth in sales revenue among the top 100 slipped to 5 per cent during the year.

Margins and before-tax profits for the listed companies also fell by a third.

Despite that, Shanahan says double-digit growth was still common, with the 16 leading growth companies, including quartz oscillator maker Rakon, Douglas Pharmaceutical,

bathroomware manufacturer

Methven, Orion Health and Wellington Drive Technologies growing their combined revenues by 40 per cent.

Shanahan says the fall in the Kiwi dollar from US80c to nearer US60c will be a godsend for many companies.

"My feeling is the market is starting to ease up and redundancies in the manufacturing sector should make staff more freely available for emerging companies."

The financial and economic outlook around the world is looking bad for everyone, but Shanahan says New Zealand has some advantages.

"We can turn products around faster with smaller teams and less cost than other countries.

Those kind of general skills we have here aren't recognised enough. Our companies consistently come up with comparable or better solutions than overseas companies with much larger budgets."

At the same time, growth can become a race to get critical mass, and the high New Zealand dollar has helped some companies who have needed to make overseas acquisitions to defend or grow market share.

Rakon has entered a joint venture with Chinese company Timemaker Crystal Technology that could double its production of the sort of oscillators and resonators needed for applications like GPS in phones, and Methven has bought plumbing distributors in Australia and Britain.

Some companies won't survive. During the year the finance subsidiary of vending franchise company VTL collapsed, and telco billing company Argent Networks, aircraft manufacturer Alpha Aviation, biotech company ICP Bio and visualisation software developer Compudigm went into receivership.

Software of Excellence (dental software), Ancare (veterinary products), Infinity Group (software and services), Vectek (industrial control equipment) and Q4Bis (business intelligence software) were all bought by overseas companies.

It's the fourth TIN100 that Shanahan has compiled, and he's struck by how much movement there is in the sector.

Some of that is because he is still finding out about companies which deserve to be included. For example, among the 20 new entrants this year is NDA, the fifth largest on the list with 750 staff and \$250 million in revenue – 140 per cent up on last year.

It's an offshoot of the old Dairy Board involved in fabrication of stainless-steel tanks, with the growth of the dairy and wine sectors helping drive its growth.

The list also includes some companies which have been acquired by foreign multinationals, because of the perspective it gives on the life cycle of New Zealand companies.

Knocking those companies from the list would knock a billion dollars from total revenues, with the next 23 companies waiting in line only bringing a total of \$77 million to the table.

It can take a long time for companies to pick up speed.

Wellington Drive Technologies has been around since the 1980s, but it's only now that its energy-efficient motors have become sought after by refrigeration manufacturers.

Shanahan says other companies to watch include independently owned IT services and support company Datacom, which now draws 40 per cent of its revenue from offshore; Flotech, whose gas compressors are in demand as the oil and gas industry retools for new challenges; and Endace, which is a world leader in monitoring equipment for high-speed networks.

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