

# 'Feel good' factor charts future performance

Investors in each stock would have more than doubled their money and beat the NZX index

## Nevil Gibson

Investors who want to identify listed companies with outstanding future financial and market performance have a valuable analytical tool based on the companies' excitement factor.

This has been revealed in an analysis by global consultancy firm PricewaterhouseCoopers of the NBR Search for Exciting Companies series, which has been compiled by research house New River since 2002.

Nearly 500 private and 21 public listed companies across a number of economic sectors have featured in the

monthly series.

That research has focused on identifying exciting companies – senior executives and business owners are interviewed using psychologically-based research criterion to assess those companies that are the most exciting and to find out why.

But now that "feel good" factor has been correlated with the acknowledged performance measure of company financial performance: total shareholder returns.

The PwC analysis shows the exciting companies series has identified many of the sharemarket's hot stocks, months and in some instances years before investors recognised them as winners.

Many of those identified as exciting companies in the research have gone on to be some of the country's most outstanding enterprises and top performers, such as 42 Below, Mainfreight, Pumpkin Patch, Just Water and Fletcher Building.

In its analysis, PwC looked at the performances of all 20 of the public listed companies featured in the series. The total shareholder returns since that time were compared with that of the NZX50 index over the same period (see table).

Of the 20 companies, 19 achieved positive shareholder returns. While 11 underperformed the market, nine outperformed the market. But more importantly, as a portfolio, the exciting companies outperformed the NZX50 index by 46% in the period between April 2002 and January 2007.

More particularly, the exciting companies series predicted the sharemarket's big winners before the market priced in or anticipated the wins.

From a private investor perspective, the numbers show that if \$1000 was invested in each of the stocks on the date they were named in the exciting companies series

outperforms another because of competitive advantage. But the traditional methods of gauging future performance tend to be overly reliant on analysis of past financial data and management's own statements. This research appears to get closer to identifying the real elements that make up competitive advantage."

New River research director Roger Parker said his approach tended to pick up something beyond raw number-crunching.

"The aspects we measure are forward looking, and because of this, we tend to find companies on the rise.

"The exciting companies research is based on interviews with senior executives and business owners. They know what's happening in their industry and from this we can draw a well-informed forward view."

Mr Parker said companies that senior executives identified as the most exciting were usually the ones re-shaping their industry. That showed up in perceptions quickly but

took a while longer to flow through to financial statements and general market perception.

"Of course, not all make it, but those that do more than make up for that on a portfolio basis."

Mr Parker said the small number of listed companies among the 500-plus companies surveyed indicated a missed opportunity for the NZX and the local investor – and a possible reason private equity is a more attractive option than going public.

"Many are sizeable firms, with millions in turnover and high growth. I don't know the answer to why they don't list, but you can certainly see a huge market opportunity there, one which private equity is quickly filling now.

"There are hundreds of New Zealand companies with superb potential – often flying below the public's radar and not listed – that will probably grow much faster with access to capital and make a superb investment for those who find them first."

## TOTAL SHAREHOLDER RETURNS (TSR)

Company	Published in NBR series	From date published		Out/(under) performance
		TSR	NZX50 total return	
Mainfreight	Oct 02	784.9%	108.0%	676.9%
Pumpkin Patch	Apr 02	289.6%	54.6%	235.0%
TrustPower	Aug 03	260.2%	87.8%	172.4%
Ryman Healthcare	Mar 05	236.2%	35.1%	201.1%
Fletcher Building	Dec 03	203.3%	71.0%	132.2%
Just Water	Jun 05	95.0%	54.1%	40.9%
Nuplex	Mar 04	94.6%	65.9%	28.6%
Auckland International Airport	Jun 02	90.2%	97.2%	(7.1)%
Designer Textiles/Pod Ltd	Feb 04	77.4%	104.0%	(26.6)%
Auckland International Airport	Apr 04	56.1%	56.4%	(0.3)%
Sky City	Jan 03	53.1%	107.3%	(54.2)%
Windflow Technology	Aug 03	22.5%	71.6%	(49.1)%
Telecom	Sep 06	16.3%	15.3%	1.0%
Air NZ	Apr 04	13.1%	56.4%	(43.2)%
The Warehouse	Apr 02	11.3%	101.5%	(90.2)%
Scott Technology	Oct 03	9.5%	78.3%	(68.8)%
Tenon	Aug 04	(20.8)%	45.3%	(66.2)%

## COMPANIES SUBJECT TO TAKEOVER

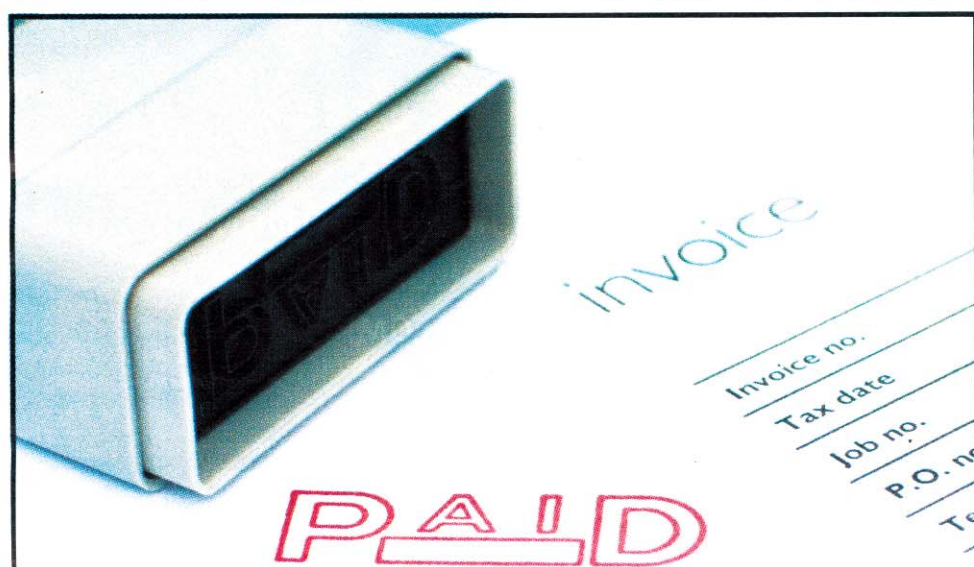
Company	Published in NBR series	Delisted	From date published		Out/(under) performance
			TSR	NZX50 total return	
PowerCo	Aug 03	Nov 04	35.8%	34.0%	1.8%
Pacific Retail Group	Apr 02	Jul 06	(17.6)%	81.5%	(99.1)%
Mike Pero Mortgages	Nov 03	Sep 06	22.2%	36.0%	(13.9)%
42 Below	Jun 05	Dec 06	22.6%	32.4%	(9.9)%

## PORTFOLIO RETURN

Company	Published in NBR series	Last date	Investment of \$1000 from date published			
			Company total return	NZX50 total return	Value of stock	Value of index
The Warehouse	Apr 02	Jan 07	11.3%	101.5%	\$1113	\$2015
Pumpkin Patch	Apr 02	Jan 07	289.6%	54.6%	\$3896	\$1546
Pacific Retail Group	Apr 02	Jul 06	(17.6)%	81.5%	\$824	\$1815
Auckland Int'l Airport	Jun 02	Jan 07	90.2%	97.2%	\$1902	\$1972
Mainfreight	Oct 02	Jan 07	784.9%	108.0%	\$8849	\$2080
Sky City	Jan 03	Jan 07	53.1%	107.3%	\$1531	\$2073
PowerCo	Aug 03	Nov 04	35.8%	34.0%	\$1358	\$1340
Windflow Technology	Aug 03	Jan 07	22.5%	71.6%	\$1225	\$1716
TrustPower	Aug 03	Jan 07	260.1%	87.8%	\$3601	\$1878
Scott Technology	Oct 03	Jan 07	9.5%	78.3%	\$1095	\$1783
Mike Pero Mortgages	Nov 03	Sep 06	22.2%	36.0%	\$1222	\$1360
Fletcher Building	Dec 03	Jan 07	203.3%	71.0%	\$3033	\$1710
Designer Textiles/Pod Ltd	Feb 04	Jan 07	77.4%	104.0%	\$1774	\$2040
Nuplex	Mar 04	Jan 07	94.6%	65.9%	\$1946	\$1659
Auckland Int'l Airport	Apr 04	Jan 07	56.1%	56.4%	\$1561	\$1564
Air NZ	Apr 04	Jan 07	13.1%	56.4%	\$1131	\$1564
Tenon	Aug 04	Jan 07	(20.8)%	45.3%	\$792	\$1453
Ryman Healthcare	Mar 05	Jan 07	236.2%	35.1%	\$3362	\$1351
42 Below	Jun 05	Dec 06	22.6%	32.4%	\$1226	\$1324
Just Water	Jun 05	Jan 07	95.0%	54.1%	\$1950	\$1541
Telecom	Sep 06	Jan 07	16.3%	15.3%	\$1163	\$1153
<b>Total from investment of \$21,000</b>					<b>\$44,552</b>	<b>\$34,938</b>

## OUTPERFORMANCE OF NBR EXCITING COMPANIES PORTFOLIO

Performance comparison	Value (\$)	Total return
<b>Total amount invested</b>	<b>\$21,000</b>	
Value of NZX50 portfolio	\$34,938	66.4%
Value of exciting companies portfolio	\$44,552	112.2%
Out performance of exciting companies portfolio	\$9614	45.8%



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