

Lifecycle Financing

Presented by:

The Equipment Leasing Association

June 11, 2002

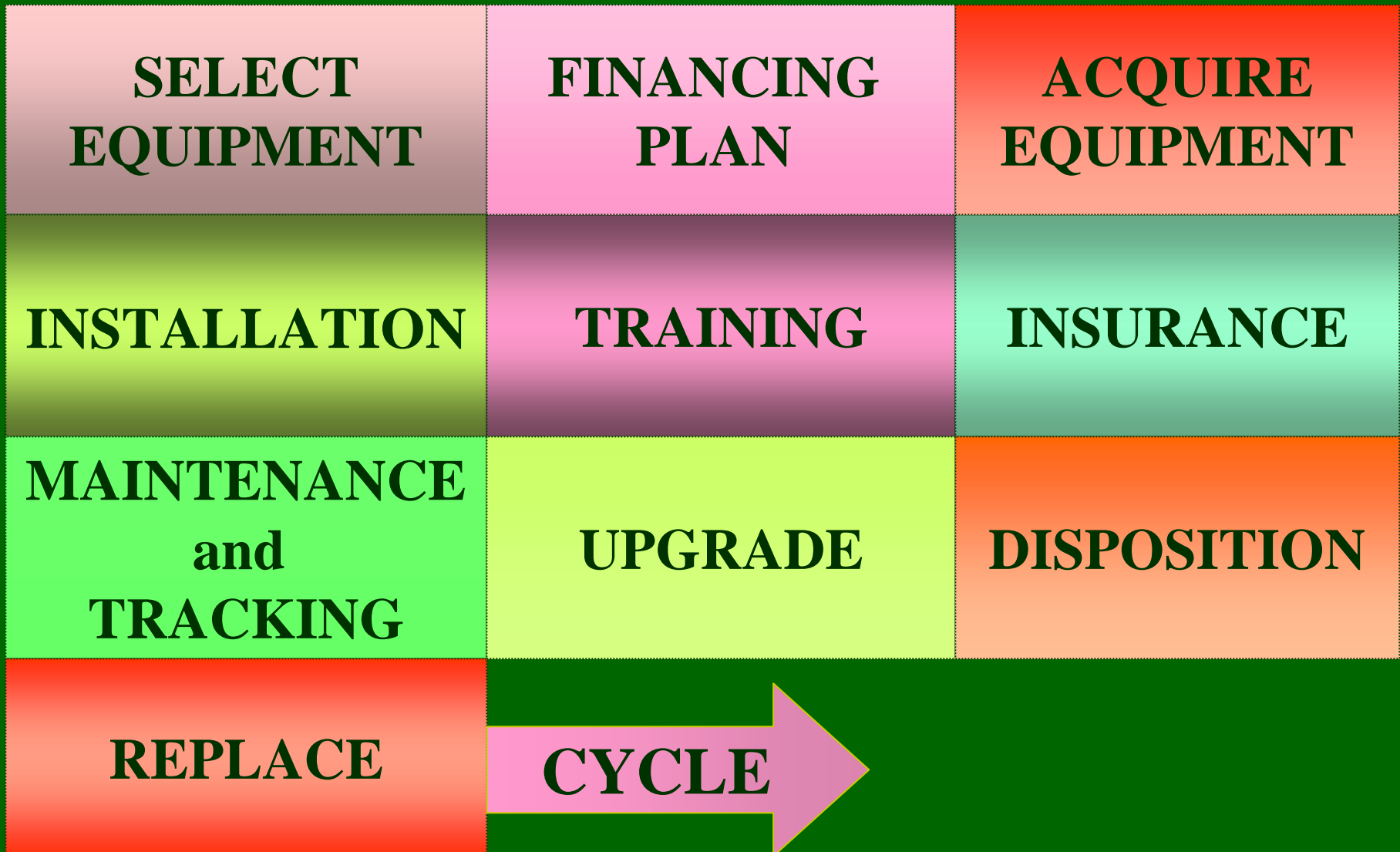
Joseph Lane, Chairman

Michael Fleming, President

Session Objectives –

- **Describe a Total Equipment Utilization Lifecycle – *Benefits and Risks.***
- **Explore the equipment acquisition decision process – *Measuring The Costs.***
- **Identify and analyze the available finance alternatives to optimize benefits and minimize risks in utilizing productive equipment – *Internal Funds, Loans and Leases.***
- **What should *You Look For* and *Ask For*?**

The Lifecycle Equipment Plan



Each Decision Carries Risk Considerations

**SELECT
EQUIPMENT**

**FINANCING
PLAN**

**ACQUIRE
EQUIPMENT**

INSTALLATION

TRAINING

INSURANCE

**MAINTENANCE
and
TRACKING**

UPGRADE

DISPOSITION

REPLACE

Each Decision Has Financial Considerations

**SELECT
EQUIPMENT**

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PLAN**

**ACQUIRE
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INSTALLATION

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**MAINTENANCE
and
TRACKING**

UPGRADE

DISPOSITION

REPLACE

-Most Managers focus on Equipment Selection.

- Some Managers Make an Equipment Lifecycle Plan that Considers several decisions up front.

- Few Managers Prepare a Total Equipment Lifecycle Plan.

Most Managers focus on Equipment Selection.

**SELECT
EQUIPMENT**

INSTALLATION

**ACQUIRE
EQUIPMENT**

INSURANCE

Some Managers Make an Equipment Lifecycle Plan that considers several decisions up front.

**SELECT
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Few Managers Prepare a Total Equipment Lifecycle Plan.

**SELECT
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and
TRACKING**

UPGRADE

DISPOSITION

REPLACE

*The Decision for Each Component
of the Plan Carries a Financial
Consideration, . . .
the Decisions are interrelated.*

Financial Risks / Benefits . . .

Equipment Selection.

Risks:

- **The right equipment for a pre-determined use and duration.**
- **Cost effectiveness.**
- **Amortization schedule.**
- **Long term FMV and depreciated value.**
- **Ability to reconfigure or replace.**

Benefits:

- **Available for productive use.**
- **Improve company efficiency.**
- **Asset value.**

Financial Risks / Benefits . . .

Equipment Acquisition.

Risks:

- **Purchase Price.**
- **Cash flow.**
- **Impact on Financials.**
- **Ability to use tax depreciation.**
- **Opportunity costs of capital.**
- **Cost and availability of capital**

Benefits:

- **Equipment available for productive use.**
- **Flexible to do anything with the equipment company wishes.**
- **Potential upside / maintenance of equipment value.**

Financial Risks / Benefits . . .

Installation and Training

Risks:

- **Cost.**
- **Quality.**
- **Performance.**
- **Use of Capital**

Benefits

- **Equipment available for productive use.**
- **Competitive advantages.**
- **Training program and trained employees**

Financial Risks / Benefits . . .

Insurance.

Risks:

- **Availability.**
- **Evaluation and Management.**
- **Cost.**

Benefits:

- **Control.**
- **Relationships with providers.**

Financial Risks / Benefits . . .

Maintenance and Tracking

Risks:

- **Cost.**
- **Quality.**
- **Warranty.**
- **Productivity.**
- **Usage.**
- **Parts channels.**
- **Loaners.**
- **Property and sales tax liability.**
- **Environmental responsibilities.**

Benefits:

- **Performance reliability.**
- **Productivity measures.**
- **Efficient location and deployment.**
- **Planning.**

Financial Risks / Benefits . . .

Upgrades.

Risks:

- **Availability.**
- **Costs.**
- **Installation.**
- **Operation.**
- **Value in current market conditions.**

Benefits:

- **Flexibility.**
- **Improve productivity.**
- **Extend value.**

Financial Risks / Benefits . . .

Disposition.

Risks:

- **Optimize value**
 - Carrying costs.
 - Knowledge of secondary markets.
 - Determining value.
- **Cost of disposal.**
- **Environmental liability.**
- **Tax liabilities.**

Benefits:

- **Cash.**
- **Eliminate non / low productive assets.**
- **Eliminate / reduce costs of non / low productive assets.**

Financial Risks / Benefits . . .

Replacement.

Risks:

- **Timing**
- **Interruption of business.**
- **Compatibility.**
- **Integration.**
- **Costs.**
- **Cash flow.**

Benefits:

- **Increase productivity.**
- **Efficiency.**
- **Avoid *extra* maintenance.**

In Summary

Risks:

- Financial.
- Technology.
- Management Resources and expertise.
- Tax usage and compliance.
- Liability.
- Focus distraction.

Benefits:

- Use of Productive Equipment.
- Asset Value.

In General

*Use of Equipment,
not ownership of Equipment,
provides value to companies.*

Equipment Lifecycle Plan Decisions about Risks and Benefits come down to

**Which Risks do
You Want to Keep?**

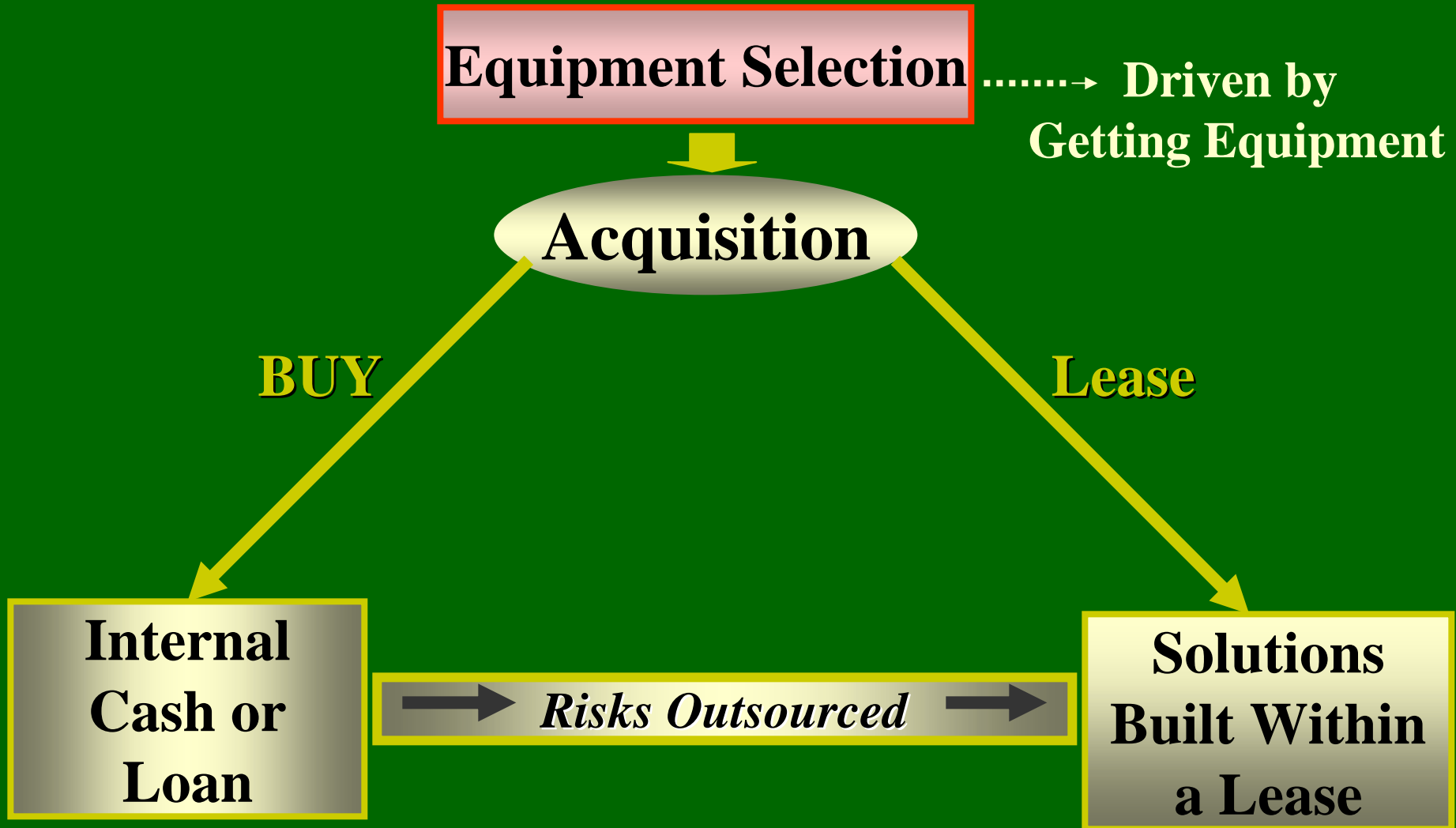
**Which Risks do
You Want to Share?**

**Which Risks do
You Want to
Outsource?**

*A Company Can Make A Plan
That Has Others Share or
Totally Manage any of the Risks
Related to Using / Owning
Equipment.*

Each risk and benefit has a cost / value that must be factored into the finance plan to help decide which risks to keep, which to share with others and which to outsource!

Typical Approach . . .



Equipment Leasing

Lessor
as a Source
of *only* Finance

Lessor
as a Source
Of Solutions

RANGE

Lessee
KEEPS MOST
RISKS
and BENEFITS

Lessee
SHARES MOST
RISKS
and BENEFITS

Lessee
OUTSOURCES
MOST RISKS
and BENEFITS

At Core of Leasing

Comparative value added through the assumption and management of the Risks and Benefits of Equipment Ownership.

Allows an Operating Company to focus on its core business.

Examples of why and how lessors assume ownership risks:

- **Financial**
 - 100 %
 - Cash Flow
 - Fixed / low rate
 - Accounting
 - Structuring Cost & Financing Plan
- **Tax**
 - AMT
 - Depreciation Effectiveness
 - Tracking & Compliance
- **Asset Management**
 - Technological Obsolescence Planning
 - Installation & Training
 - Maintenance
 - Upgrades & Software
 - Disposal
 - Replacement Scheduling

TO BUY
OR
TO LEASE

WHAT IS KEEPING or OUTSOURCING RISK WORTH \$\$\$\$\$

- **CASH FLOW / 100% FINANCING**
- **CONVENIENCE**
- **TECHNOLOGY**
- **FINANCIAL STATEMENTS**
- **FIXED RATE**
- **ASSET MANAGEMENT**
- **DISPOSAL**
- **TRACKING USAGE**
- **VALUE – DOWNSIDE / UPSIDE**
- **EQUIPMENT COST / FINANCING COST MIX**

Which of the Risks Do You Want To Solve?

- **Total Capital Cost?**
- **Equipment Obsolescence / Flexibility?**
- **Cash Flow Management?**
- **Tax Liability?**
- **Balance Sheet / Leverage?**
- **Uninterrupted Availability of Productive Equipment?**

*If a Company Wants to Retain Risk,
Think it Through and Pull the
Analysis into the front end of the
Decision Making!*

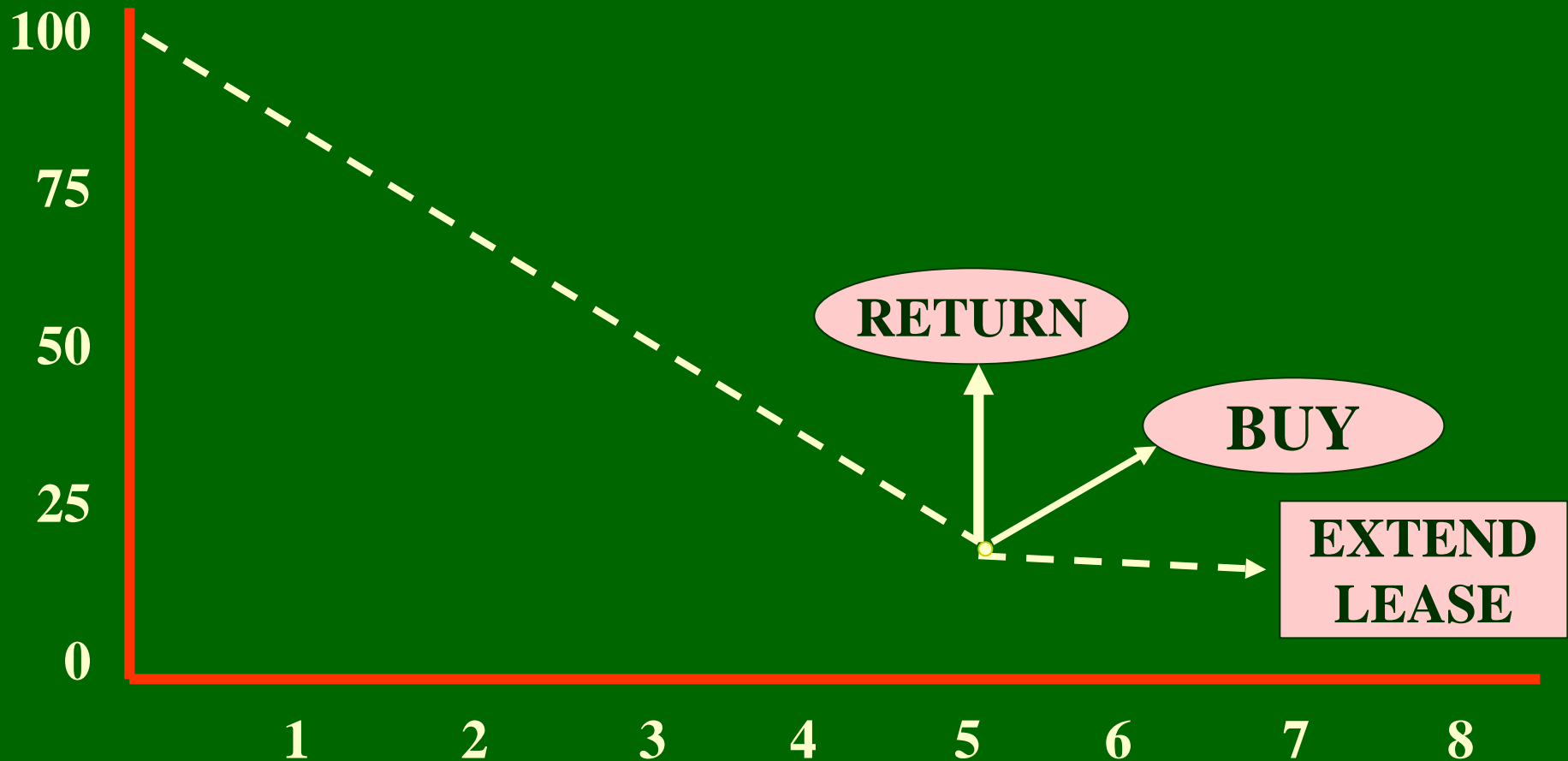
For your thinking . . .

OWNERSHIP – *you never get to zero!*



For your thinking . . .

LEASE – *pay for what you use!*

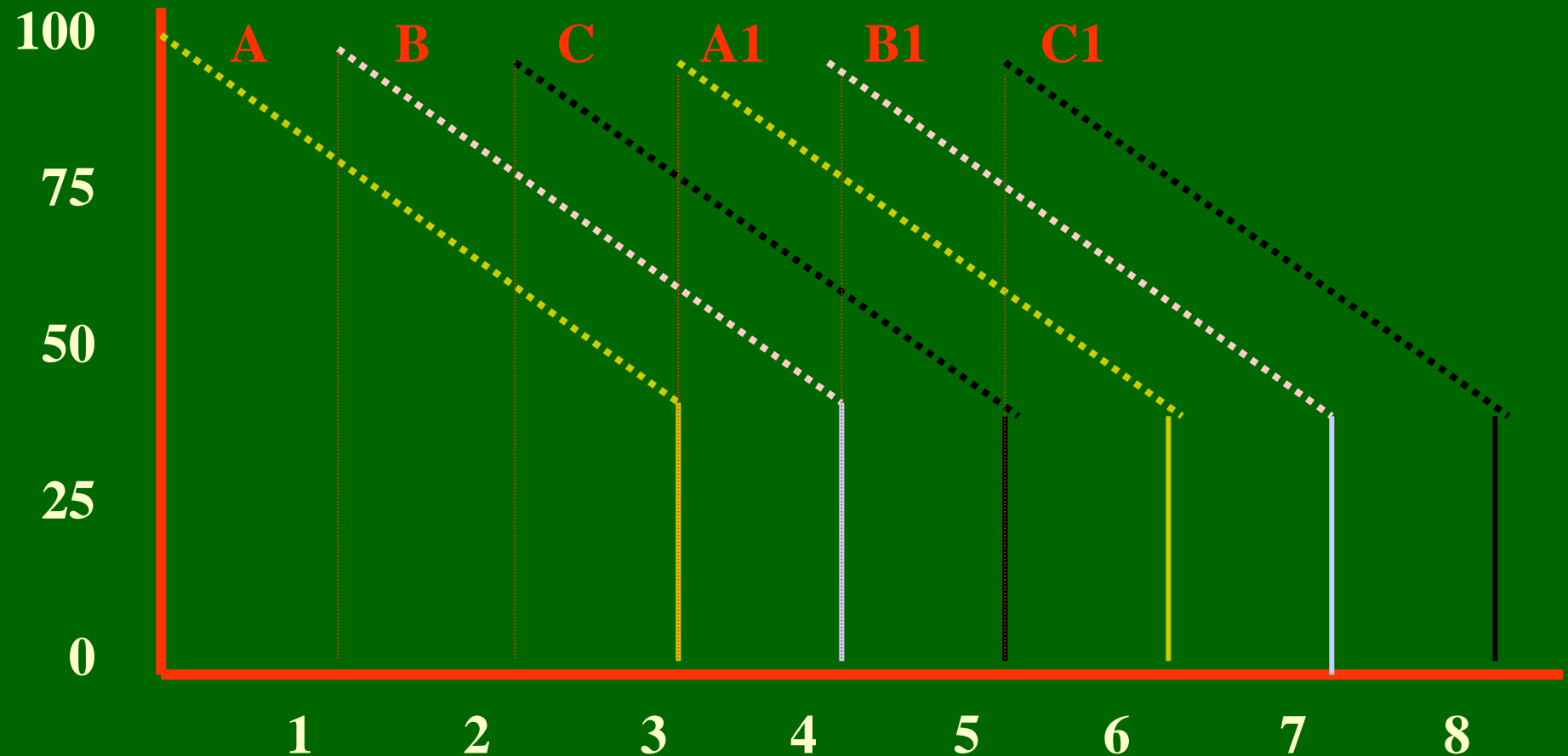


For your thinking →

3 Year Replacement Cycle:

- *Computers*
- *Fork Lifts*
- *Trucks*
- *Office equipment*

LEASING – *allows a predictable replacement cycle.*



For your thinking . . .

What objective does the company have?

Off Balance Sheet Financing

- \$1 Million Equipment Acquisition
- Incremental Borrowing Rate – 8.33%
- 36 month term

Purchase Price Discount 10% (\$100K)

Purchase Price	Lease Payment	Total Lease Payment	Present Value
\$900 K	\$26,638	\$959 K	94.0% (on balance sheet)

For your thinking . . .

What objective does the company have?

Off Balance Sheet Financing

- \$1 Million Equipment Acquisition
- Incremental Borrowing Rate – 8.33%
- 36 month term

Purchase Price Discount 6% and Buy Financing Down 4%

Purchase Price	Lease Payment	Total Lease Payment	Present Value
\$940 K	\$26,638	\$959 K	89.9% (off balance sheet)

For your thinking . . .

What Objective does the company have?

Below Market Interest Rate.

- \$1 Million Equipment Acquisition
- Full Payout Lease
- 60 month term

At Market Interest Rate and 10% Discount.

Equipment Cost	Lease Payment	Customer Interest Rate
\$900 K	\$18,391	8.33% (at market interest rate)

For your thinking . . .

What Objective does the company have?

Below Market Interest Rate.

- \$1 Million Equipment Acquisition
- Full Payout Lease
- 60 month term

Discount through Rate Buy Down

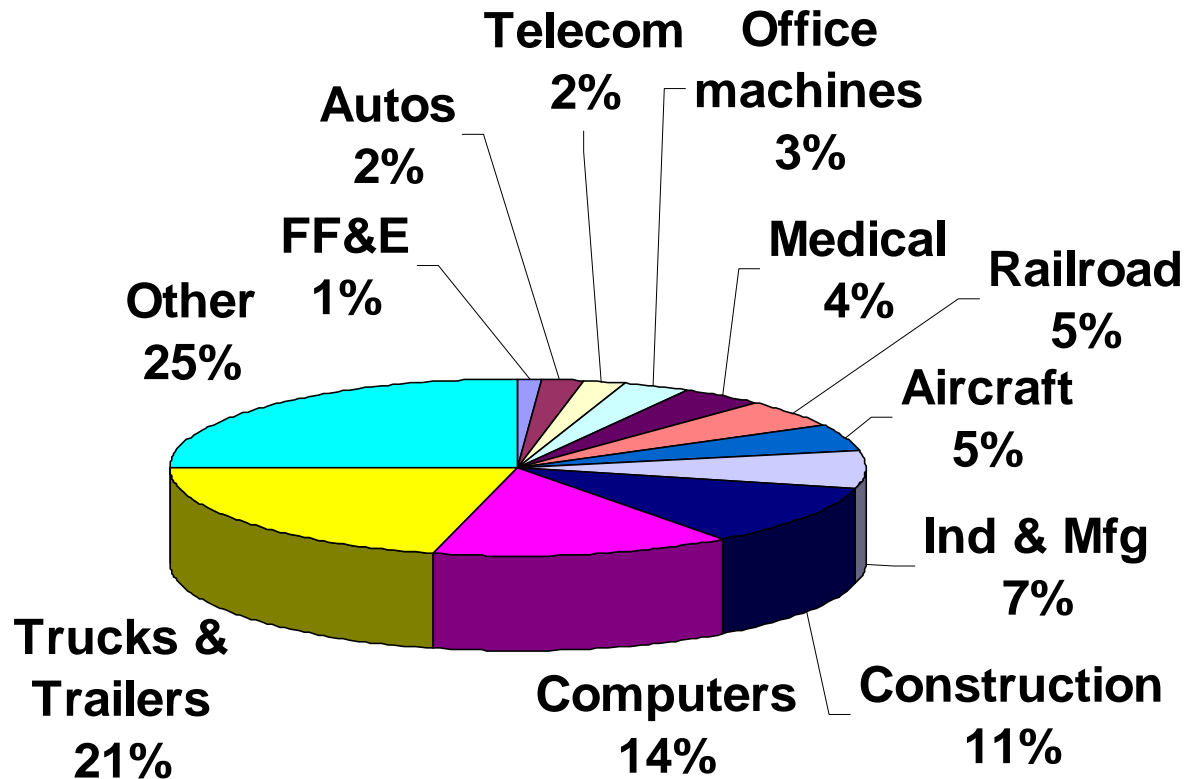
Equipment Cost	Lease Payment	Customer Interest Rate
\$1,000 K	\$18,391	3.94% (below market rate)

Leasing Volume in the U.S. Economy



- **1999** **\$234 billion**
- **2000** **\$247 billion**
- **2001 est.** **\$242 billion**
- **2002 proj.** **\$244 billion**

What is Leased?



Source: 2001 ELA Survey of Industry Activity

For more information -

www.leaseassistant.org/

www.elaonline.com/

www.leasefoundation.org/