

Welcome to our CB Leasing Overview Presentation



**1 Financial Plaza
1350 Main Street
STE 318
Springfield, MA 01103**

CB Leasing is an Affiliate of Spafford Leasing Associates, Inc.

OFFICERS

Angela M. Flebotte

CEO

CB Leasing, Inc.

angelaf@spafford.com

www.cbleasing.net

Kenneth C. Spafford

President

CB Leasing, Inc.

spafford@spafford.com

www.cbleasing.net

Tel 413-526-0977

- Leasing Industry Overview
- Who Uses Equipment Finance and Why?
- Lease Benefits
 - Opportunity to get new customers by getting a “foot in the door” with non bank customers.
 - Cross sell other bank products and services after they become a lease customer.

Leasing Industry Overview



Leasing Industry Overview



- Most businesses require equipment in order to operate and grow and, for a majority of businesses, equipment financing is a key acquisition strategy.
- Domestically, equipment finance accounts for \$1 trillion of business each year.
- Each year American businesses, nonprofits, and government agencies invest over \$1.584 trillion in capital goods and software (excluding real estate).
- Some 67%, or \$1 trillion, is financed through loans, leases, and other financial instruments.
- Nearly 8 in 10 businesses use at least one form of financing (excluding credit cards) to acquire equipment.

Leasing Industry Overview



The key aspect to understand about equipment finance is that it is one of the most important ways for businesses to invest in capital while managing their balance sheets, taxes, and cash flow.

Leasing Industry Overview



The assets that a business may need to finance are varied; examples include:

- Agricultural equipment
- Manufacturing machinery
- Commercial Solar Panels
- Machine Tools
- Trucks and transportation equipment
- Construction and off-road equipment
- Business, retail, and office equipment
- Medical technology and equipment
- IT equipment and software

Leasing Industry Overview



Who are the players?

Banks	Banks finance the sale or lease of equipment. Banks may offer lease financing as one of their financial products in order to provide their customers with a full range of financial services.
Captives	Captives are companies set up by a manufacturer or equipment dealer to finance the sale or lease of its own products to end-users.
Independents	An independent leasing company is one that is <i>not</i> affiliated with another company. Independent leasing companies vary greatly in the products and services they offer. They may be generalists or they may specialize by ticket size, by equipment type, or by other criteria.
Brokers	Brokers establish a relationship with the CFO, assess their equipment financing need, and help determine the best product and structure to meet this need. The Broker then presents the deal to several sources to find the best funding partner. Brokers earns fees for services from either Company or the Funding Source.

Leasing Industry Overview

Market Segments – Small-Ticket Financing

- A market segment generally represented by transactions **under \$250,000**.
- Equipment in this segment includes such items as computer peripherals, office equipment, services, software, and telephone equipment.



Lease Industry Overview



Market Segments – Middle Market Financing

- A market segment generally represented by transactions **between \$250,000 and \$5,000,000.**
- Equipment in this segment includes solar equipment, computers, software, services, enterprise networks, manufacturing equipment, health services, construction equipment, and medical equipment.



Lease Industry Overview

Market Segments – Big-Ticket/Large-Ticket Financing

- A market segment generally represented by financing that usually exceeds **\$5,000,000**.
- Equipment financed in this segment includes power plants, railroad equipment, helicopters, commercial and corporate jets, vessels, and other transportation equipment, and large mining, oil, and gas exploration.



Why Equipment Leasing and Finance?

Why Equipment Leasing?



Secured Lending and Lease Financing



- A *loan* is a financing agreement that allows a business to acquire, use and own equipment.
 - A loan may require a down payment or a pledge of other assets for collateral. Under a loan financing, the borrower remains the owner of the equipment for tax and accounting purposes.
- A *lease* allows a company to acquire and use equipment while conserving its cash flow and lines of credit.
 - Leasing also provides a new source of credit with the added benefit of being able to expense your lease payments in most instances. Leasing also can protect against equipment obsolescence when upgrades are included in a lease contract or the equipment is returned to the lessor at the end of the lease term.

Why Equipment Leasing?



There are countless reasons why it's a smart idea to use equipment leasing and finance:



- ✓ Conservation of cash
- ✓ 100% financing
- ✓ Preservation of capital
- ✓ Hedge against inflation
- ✓ Improved expense planning and business-cycle flexibility
- ✓ Regular technology updates
- ✓ Tax considerations
- ✓ Relationship with equipment experts
- ✓ Obsolescence management
- ✓ Product and service bundling
- ✓ Equipment Disposal

For more information, visit:

www.equipmentfinanceadvantage.org



Data provided by the Equipment Leasing & Finance Foundation at www.leasefoundation.org

Why Equipment Leasing?



The Benefits of Equipment Finance

INCOME TAX



- Alternative Minimum Tax issues
- Deduct 100% of Lease Payments
- Loss carry forwards
- Avoid 4th quarter 40% Depreciation rule

BALANCE SHEET



- Industrial revenue bond covenants
- Comply with key ratios from lenders
- Measured for performance by ROA/ROE

CASH FLOW



- Conserve cash for acquisitions
- Match payments to seasonality
- Sale/lease back to generate cash
- Lowest monthly payment with minimal outlay

EQUIPMENT



- Prefers to use equipment vs. ownership risks
- Trade up to avoid obsolescence
- Reduce cash requirements during life

Why Equipment Leasing?



There are two basic types of leases

- **Tax Oriented Lease** – The provider of the lease financing (the Lessor) purchases the equipment and is the owner of the equipment for tax purposes. The Lessor is entitled to the tax benefits of ownership (depreciation) and as a result can offer a lower rate to the company (Lessee).
- **Non-Tax Oriented (Capital) Lease** – The Lessor provides 100% financing but the tax ownership remains with the Lessee.

Other Considerations



- Current and future Tax positions
 - Anticipated Equipment acquisitions
 - Loss Carry Forwards, not being able to use depreciation
- Financing Caps under Credit Facilities
- Lease benefit will be more significant for assets with shorter depreciation allowances
- Operational flexibility/return options under lease financing
- Changes in accounting rules effective in 2019 and after
 - Operating leases on balance sheet as an asset with an offset debt liability
 - Operating leases retain straight line expense on P&L

Basics of Lease Tax and Accounting

Who gets the tax benefits from equipment?

- Is the transaction a true lease (also called a tax lease)?

or

- Is it a conditional sales lease (also called a non-tax lease)?

True Lease

- Allows the lessor to use the tax benefits of ownership, including tax depreciation
- Allows the lessee to expense rental payments

Conditional Sales Lease – An agreement financing the sale of the equipment that:

- Allows the lessee to receive the tax depreciation from the equipment
- Allows the lessee to deduct the portion of rental payments considered as interest expense

Lease Accounting

ASC 842: Finance vs. Operating Leases		
	Finance Lease (At least one of the 5 criteria must be met)	Operating Lease (All 4 criteria must be failed)
Automatic transfer of ownership at end of term	Yes	No
Bargain purchase option	Yes	No
Term	Major part ($\geq 75\%$) of useful life	Major part ($< 75\%$) of useful life
Present value of rentals using the Incremental Borrowing Rate or the Implicit Lease Rate	Substantially all ($\geq 90\%$) of equipment cost/fair value	Substantially all ($< 90\%$) of equipment cost/fair value
Asset can be specialized with no alternative use to the lessor	Yes	No