Leasing Redefined:

What's in a Name?

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Redefined – Why and How

- Examining the real size of the "Leasing Industry" and what makes it unique.
- Questioning our definition of the market
- Establishing the "DNA" of leasing
- Establishing potential evolutionary and strategic trends
- Considering how the findings can be used to further develop the industry
- Two stage approach:
  - Businesses who consider that they are "in the industry"
  - Businesses that are not general put in the "leasing" category

Redefined – First Views

- The leasing industry, when defined in a wider manner is many times larger than current statistics imply.
- The “DNA” of leasing, what makes us unique, exists in a far wider range of products and services
- At the purely financing level, certain type of products nominally called leasing, are in reality simple debt.
- Moves towards “services” “subscriptions” and other added value services are independent of “leasing specific” issues such as IFRS 16
- The Industry is far less homogenous than we would expect!

The Unreported Industry

- First we looked at a broad definition of leasing to get away from a purely financial product and gain more broad view:
- **"A written or implied contract by which an owner of a specific asset or series of assets, with or without additional services added into the agreement, grants a second party the right to its possession and/or use for a specific period and under specific conditions in return for specified periodic rentals or lease payments. The second party may or may not become the owner at expiry of the contract"**
- One UK corporate alone who uses a product with the "right" definition : does not call it leasing, does not report as leasing; but has a volume around 75% of the entire UK reported leasing industry.
- Aircraft – not included in usual leasing industry stats – value in excess of $100BN, an IT related group has $39BN of leased assets – none reported to local trade bodies. Marine ("charter by demise") is not generally recorded.

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Distilling Messages

- We are confident that the “Industry” is bigger than we report
- The “DNA” of leasing is pervading the service and use based approach to assets.
- As a distinct industry we see a set of branches or divisions in the evolution of the product.
- Terminology is shifting to suit the modern usage, “Leasing” = “Solutions”
- On or Off balance sheet is becoming far less critical – except in some cases especially vendor type, where “capital” versus “operating cost” remains important.
- As in any evolutionary process, some branches will be more successful than others and some will be absorbed into other lines.
- The issue for all is what “branches” will be successful for the future, and which will offer superior returns, growth and opportunity.

Strategic Value

- A bold statement ?:- Leasing as a purely financing tool has little distinct future or incremental added value.
- The evolutionary branch of leasing that looks at no more than pure finance is relatively indistinct from any other form of bank finance
- The growth and use of the unique aspects of leasing <u>do</u> add value and <u>are</u> distinct.
- Leasing is perfectly aligned to the "new" world of usage and pay per service.
- As a tool to aid sales in the new world, leasing has its part for those providers that can adapt to the implications.
- The DNA of leasing remains firmly in place in the high value asset world, just rarely called leasing!

Future Strategic Direction

- What does the work indicate for the future, and more pointedly does it show winners and losers?
- Risk and hence capital allocation is more complex in a product that is not pure finance – the winners are the ones able to master this.
- Pure finance with no added value is commoditised and offers inferior returns and more concentrated competition.
- Increased competition for “pure finance” is pressuring not just yield but also risk parameters – the chase for volume has not departed.
- Leasing’s unique character is embodied in the added value branch of the product family tree – but its label may change, and just taking residual value risk is not enough.
- Speed, predictability, relevance and accuracy of service push towards a stronger “FinTech” world – but not losing the key defining skills in managing assets and related risks.

Conclusion

- Leasing has evolved and expanded past the traditional models.
- The word “leasing” is a far too narrow label for what the wider industry does
- Statistical data has not kept up with the advancement of the product and hence the “real” industry is far bigger and far more diverse
- Evolution has pushed the true heart of the product into managing far more than finance or even just residual risks – a service and usage based product marks the future direction.
- Risk and return still draw on traditional strengths – asset and market knowledge, service and responsiveness and client focus – but now do so in a far more demanding way.