EUROPEAN LEASING
An Industry ‘Prospectus’
Ten Reasons to Invest in Leasing

1. Unique business models based on asset ownership
2. Resilience and stability in times of economic crisis
3. Low cost/income levels
4. Low cost of risk, in line with provisions
5. Consistently profitable business
6. Flexibility to manage changes in funding & liquidity costs
7. Leasing is extremely capital efficient
8. Strong internal controls tailored to deal with asset specificity
9. Asset ownership ensures few defaults and low losses
10. Asset expertise and management are the core of leasing
## Purpose of this document

### About European leasing

- What is leasing
- European leasing market
- Leasing to European SMEs

### Key features of the European leasing industry

1. Unique business models based on asset ownership
2. Resilience and stability in times of economic crisis
3. Low cost/income levels
4. Low cost of risk, in line with provisions
5. Consistently profitable business
6. Flexibility to manage changes in funding & liquidity costs
7. Leasing is extremely capital efficient
8. Strong internal controls tailored to deal with asset specificity
9. Asset ownership ensures few defaults and low losses
10. Asset expertise and management are the core of leasing

### Data Sources

- Overview
- Presentation of the Leaseurope Index
- Benchmark sources (OECD, Eurostat/AMECO & ECB)

### Leaseurope Index Glossary

- Definitions
- Ratios

### Contact
PURPOSE OF THIS DOCUMENT

This document describes the business models and value-addition of the European leasing industry, with an emphasis on the features that make it an attractive investment proposition. It analyses the industry's performance and returns over recent years, contains information proving that leasing is a capital efficient activity and provides an overview of industry risk management practice.

Data from the Leaseurope Index and Annual Survey are used to quantify the leasing sector, while banking figures from the OECD and Eurostat are used to quantify traditional lending. Wherever possible, leasing figures are compared to traditional lending figures in order to show the leasing industry in a comparable context. In addition, the findings from the Deloitte reports “Implicit Risk Weights for SME Leasing in Europe” and “The Risk Profile of Leasing in Europe: The Role of the Leased Asset” have been integrated.

All of this information is distilled into ten key reasons why leasing is a good investment, with supporting data and analysis.

Disclaimer

Deloitte Conseil SAS France was commissioned by Leaseurope to produce a Deloitte point of view paper on European Leasing: An Industry ‘Prospectus’. Data presented in the report were obtained from sources which we considered reliable and coherent. Deloitte Conseil has retained a strictly independent and impartial view in the creation of this report and the conclusions presented therein are, and will remain, those of Deloitte. Consequently, Deloitte Conseil shall not have any liability to any third party in respect of this report or any actions taken or decisions made as a consequence of the results, advice or recommendations set forth herein.
Much more than a financial service – a complete asset solution

Leasing companies don’t just fund assets. They build comprehensive asset solutions for their clients, meeting both their financial needs and operational requirements in one packaged product. Lessors can take on and manage residual value risk so their clients need not worry about second hand asset values. They are also able to work in partnership with a network of various service and asset specialists, integrating their skills into a seamless leasing solution for the client. At the macro level, because lessors possess in-depth asset knowledge, leasing allows for more efficient resource allocation compared to when a client owns an asset outright. Lessors may also offer other financial products – in some cases financing the entire value chain of their corporate clients, including stock and floor plan financing, factoring services and other loans.

A variety of business models that adapt to clients’ specific needs

A range of business models can be found within the European leasing industry. These depend on the leasing firm’s strategy and market position and may often be combined to best address client needs.

The “specialised finance model” refers to independent finance companies or bank owned leasing companies who position themselves as alternative sources of finance to banks. These models are based on asset ownership, and their primary focus is on providing finance for specific asset categories, managing residual value risk and offering additional services like vendor support and point of sale financing.

<table>
<thead>
<tr>
<th>Basic business model</th>
<th>Function</th>
<th>Features</th>
<th>Distribution channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialised Finance</td>
<td>Alternative source of finance to banks/bank loans</td>
<td>Independent finance companies or bank owned leasing companies</td>
<td>Direct/brokers</td>
</tr>
<tr>
<td>Vendor</td>
<td>Supports manufacturer sales</td>
<td>Leasing company (Independent or bank owned) accompanies the development of their manufacturer and dealer clients by providing sales finance support</td>
<td>Point of sale</td>
</tr>
<tr>
<td>Product</td>
<td>Additional service for bank clients</td>
<td>Leasing is part of a range of financial solutions provided by a bank to its clients, when this is the product that best suits the clients financing needs</td>
<td>Banking networks</td>
</tr>
<tr>
<td>Captive</td>
<td>Support a brand Financing arm of a manufacturer</td>
<td>Point of sale</td>
<td></td>
</tr>
<tr>
<td>Asset specialist</td>
<td>Specialises in asset risk managements</td>
<td>Focuses its business on specific asset categories, building asset expertise and taking on residual value risk</td>
<td>Direct/point of sale</td>
</tr>
</tbody>
</table>
leasing as an alternative source of finance to bank loans. In these cases, business is done directly or through brokers. The “product model” is usually carried out by a bank or a bank owned-leasing company. Here, leasing is viewed as being one of a range of financial solutions that can be provided by a bank to its clients through the banking network. The vendor model involves a leasing company (either independent or bank-owned) supporting the sales of their manufacturer or dealer partners. Here the leasing company accompanies the development of manufacturer and dealer clients by providing sales finance support and other services such as back-office support and sales staff training. While the lease is funded by the “3rd party” lessor, these programmes can still be manufacturer branded and the leases will granted by the manufacturer at their point of sale. The “captive model” is similar but the lessor (funder) in this case is the financing arm of a specific manufacturer or dealer and supports that particular brand by providing lease solutions at the point of sale. The “asset specialist model” focuses on leasing specific asset categories (often car, trucks, IT solutions, etc.), building asset expertise and taking on residual value risk as an integral part of their business model. These companies specialise in asset risk management and either provide their services directly or at the point of sale.

A lease is a multipartite relationship—supporting asset manufacturers, supplier sales, and the asset needs of end-user clients

Bank-owned or independent lessors (also known as third party lessors) will typically work with a range of asset suppliers, either with manufacturers or with their distribution networks and dealers. The close partnerships they forge enable mutual added-value exchanges, such as information on asset values for the lessor, or back-office functions such as collections management for the supplier.

Captive leasing companies support their parent company’s sales, and can cooperate with third party leasing companies for the provision of certain services, including funding, if that will better suit their clients’ needs.

Clients can either decide themselves which asset best suits their need or, if they’re not sure, turn to the leasing company for advice. They can also rely on the

The wide variety of business models, and leasing companies’ capacity to combine and adapt them, means that they are in a unique position to match their product offer to client needs.
leasing company to take care of asset-related services, such as consumables, spare parts, software, insurance, and asset replacements.

When it comes time for the asset to be replaced or upgraded, the client can easily turn to the lessor for this without any interruption in the services provided. For lessors, this ensures a very stable client base, with a high degree of repeat business and an uninterrupted stream of income flows.

**Multiple and diversified sources of income through the provision of services**

Leased contracts are modular products, where multiple service components can be packaged together into a single monthly fee for the client. The total fee thus covers the use of the asset itself, as well as its insurance, maintenance and many other services. In addition to asset-related end-user client services, lessors who partner with manufacturers are able to provide these vendors with tools such as back-office support, reporting or collection services. Lessor-vendor relationships also often give rise to bulk discounts or subsidies for the lessors from manufacturers, which in turn can be passed on to clients in the form of lower rentals.

The chart below summarises the variety of income streams lessors can benefit from.

<table>
<thead>
<tr>
<th>Multiple income sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early termination fees</td>
</tr>
<tr>
<td>Discounts/subsidies from the asset supplier</td>
</tr>
<tr>
<td>Services to vendor partners (back-office, collection)</td>
</tr>
<tr>
<td>Service-related income</td>
</tr>
<tr>
<td>(maintenance, replacement, insurance, etc.)</td>
</tr>
<tr>
<td>Residual value gains</td>
</tr>
</tbody>
</table>