Leaseurope/Invigors Business Confidence Survey

Measuring the expectations of European leasing professionals

June 2018

Leaseurope

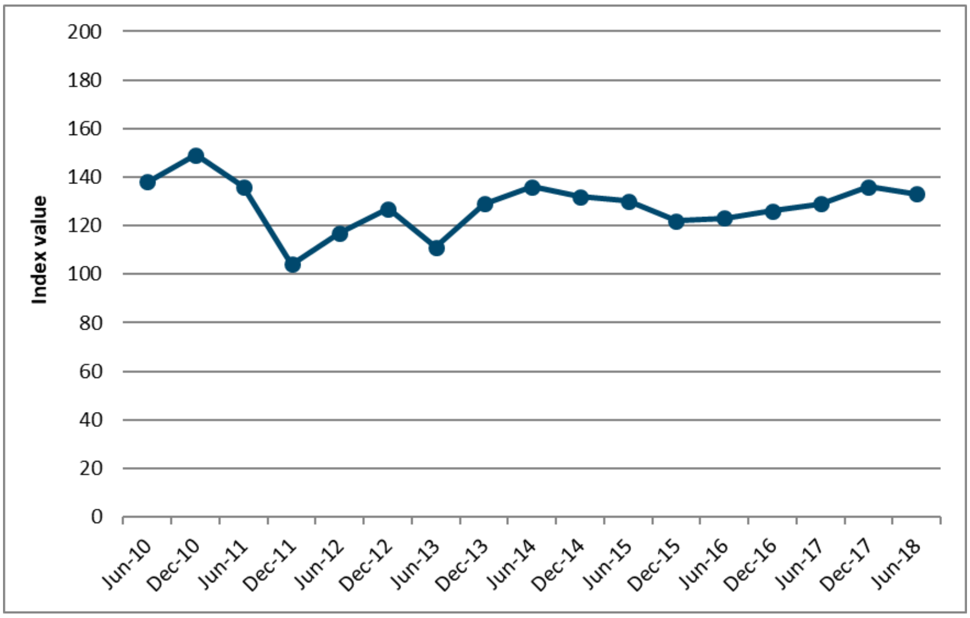
INVIGORS
Part of The Alta Group

Positive sentiment drives optimistic outlook for the European leasing industry for the remainder of 2018

Leaseurope and Invigors EMEA have published the results from the most recent European Business Confidence Survey conducted in June 2018. The findings show a positive outlook for the European leasing business for the second half of 2018, encouraged by robust growth prospects for the European economy.

The Leaseurope/Invigors Business Confidence Index (BCI)[1] tracks the European leasing market sentiment over time. Index values above 100 suggest an increased confidence in future business performance (a net positive balance of expectations) over the next six months, while values below 100 indicate pessimism towards future performance (a net negative balance). The Leaseurope/Invigors BCI stood at 133 in June, a slight decrease from the 136 recorded in December 2017, though above the level seen in recent surveys. Factors such as expectations on new business growth, net profit and survey participants' overall perception of their company's prospects have all contributed to this positive trend.

Figure 1 - Leaseurope/Invigors Business Confidence Index



Index values above 100 indicate a net positive balance of expectations while those below 100 a net negative balance.

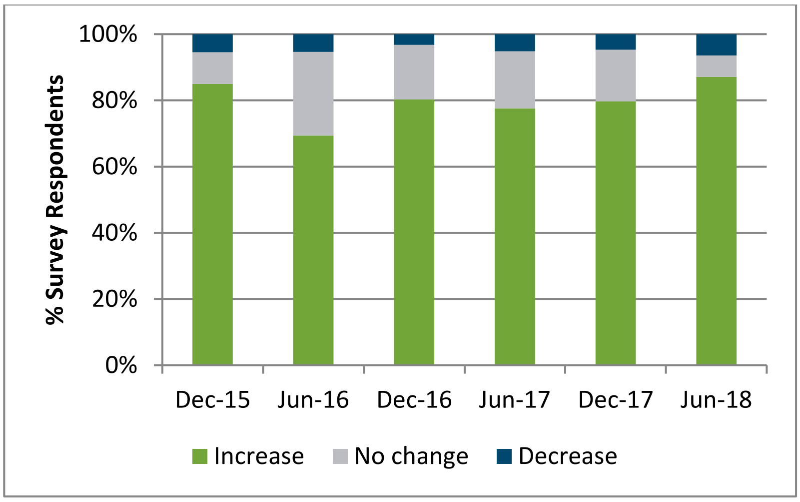
The survey polled the views of a wide range of leasing professionals in bank-owned lessors, independent leasing companies, vehicle leasing and fleet management companies and manufacturer captives. This is the twentieth in the series, which monitors business confidence in the asset finance industry across Europe.

[1] The composite Leaseurope/Invigors Business Confidence Index (BCI) is the unweighted mean of percentage of respondents that estimate future changes in five key industry indicators, namely new business, margins, bad debt, net profit and companies' prospects.

New business growth expected to remain strong for the second half of 2018

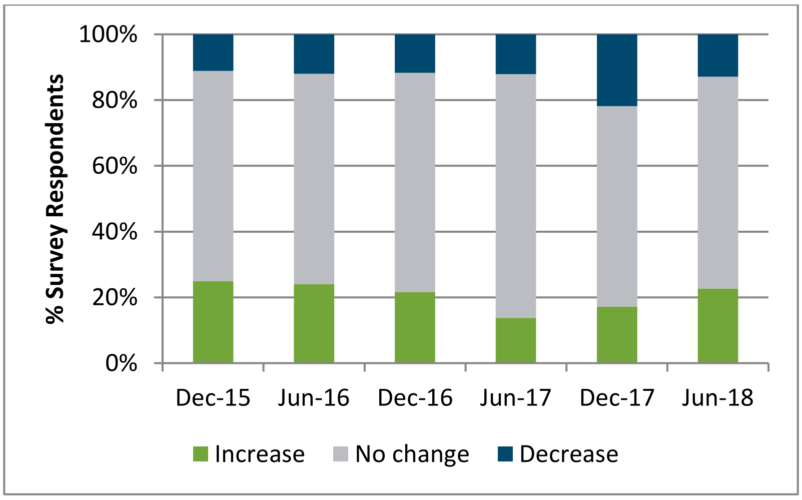
Participants' expectations of new business growth remain strongly positive in line with previous surveys. 87% of those surveyed in June anticipate growth in new business during the second half of 2018, up from 80% last December. The proportion of respondents forecasting no change in new business volumes fell from 16% to 6%, while the number predicting a fall in new business stands at just 6%.

Figure 2 - Anticipated change in new business volumes over next six months



65% of respondents expect no change in bad debt in their organisations for the second half of 2018, up slightly from 61% in December 2017. 23% of those surveyed anticipate that bad debt will increase over the next six months, up slightly the previous survey, while the remaining 13% of those taking part in the survey predict that bad debt will decrease.

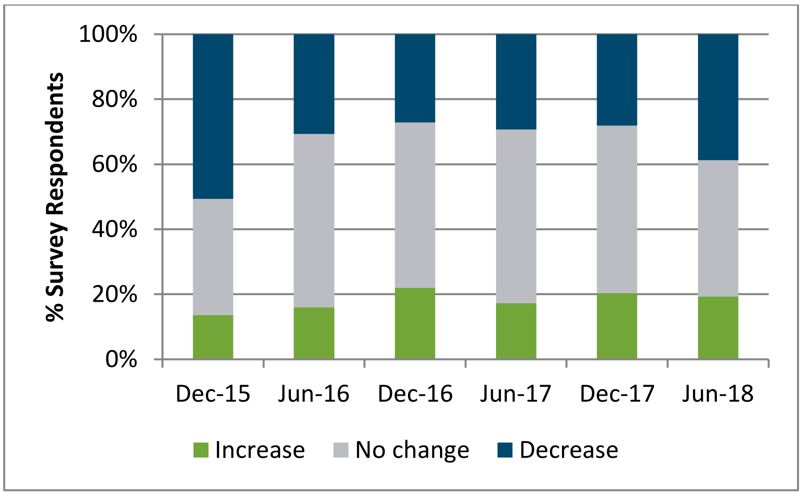
Figure 3- Anticipated change in bad debt



Expectations on margins show a tightening situation compared to the previous two surveys, with the balance of opinion growing increasingly negative. 39% of respondents now expect margins to fall during the second half of

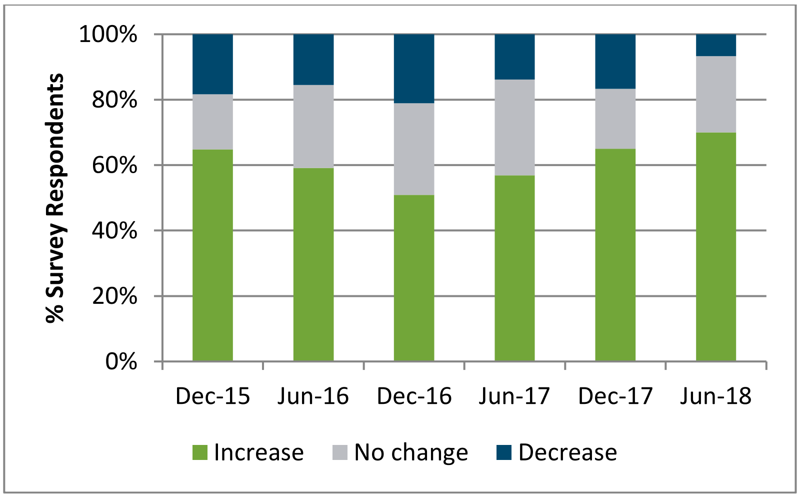
2018, up from 28% in December. 42% of those surveyed in June anticipate margins will remain unchanged, down from 52% recorded in December, while 19% predict that margins will increase, a similar percentage to the previous two surveys.

Figure 4 - Anticipated change in margins over next six months



Despite increasing expectations of a squeeze in margins, the outlook for net profit remains healthy for the remainder of the year. In the most recent survey, nearly 70% of respondents expect net profit to increase over the next six months, up slightly on the level last December (65%), while 23% anticipate no change. Only 7% believe that net profit will fall in their organisations, down from 17% recorded in December last year.

Figure 5 - Change in net profit for business over next six months



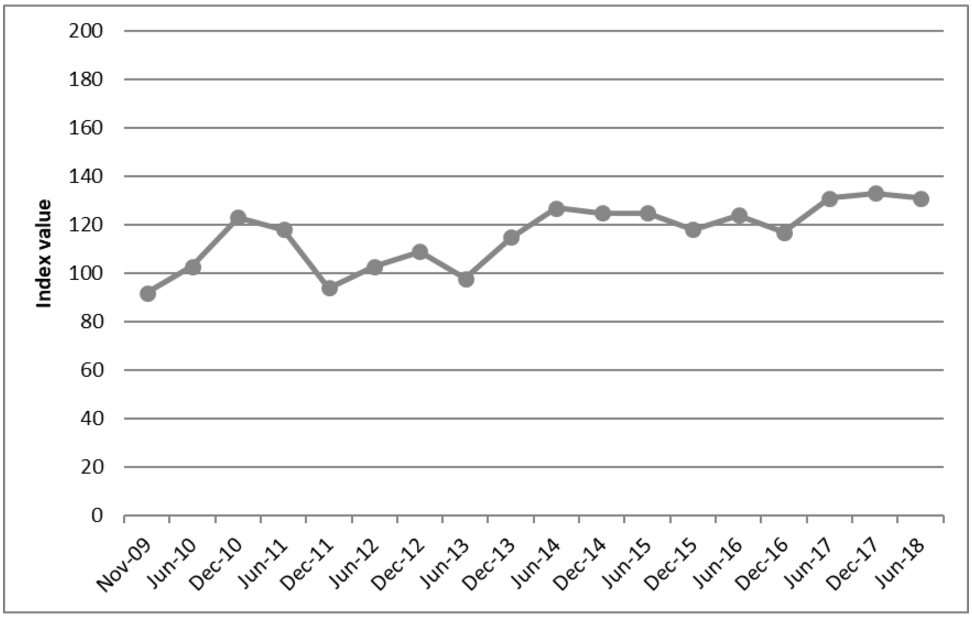
The positive sentiment established for the first half of the year appears to have been sustained for the remainder of 2018 as the economic prospects for most of the European economies remain strongly positive. KPIs for new business growth and net profit have strengthened, while margins appear to be coming under increasing pressure and bad debt is largely unchanged.

Expenditure to increase in some areas

The Business Confidence Survey measures expectations on expenditure by asset finance companies in four key areas – operating expenses, marketing, training and IT systems. The Expenditure Index (EI)[2] tracks the European leasing market's expectations on expenditure over time. Index values above 100 suggest an increase in overall expenditure (or net positive balance of expectations) over the next six months, while values below 100 indicate an overall reduction in expenditure (a net negative balance).

The Expenditure Index stands at 131 in June 2018 around the same level as in the previous two surveys. survey suggests that marketing and training expenditure are expected to remain largely unchanged at most of the companies represented in the research, while operating and IT expenditure is anticipated to increase.

Figure 6 – Expenditure Index

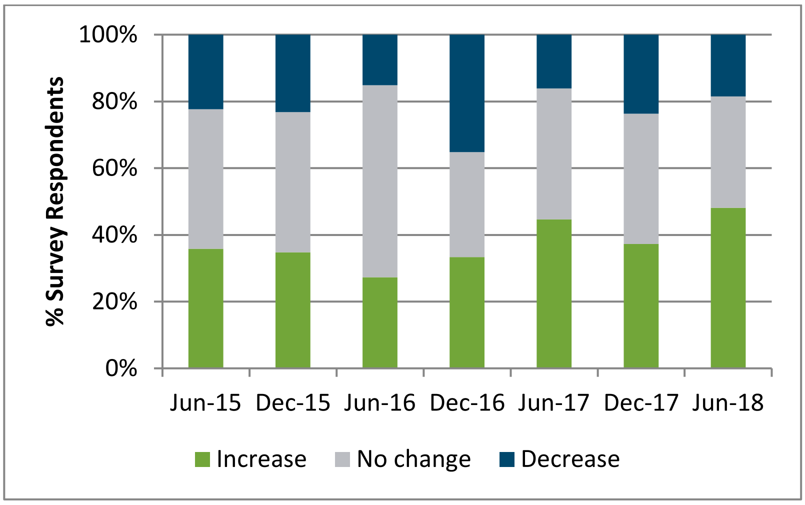


Index values above 100 indicate a net positive balance of expectations while those below 100 a net negative balance.

On the outlook for operating expenditure, nearly half (48%) of participants predict an increase over the next six months, up from 38% last December but around the same level as in June 2017. A further 33% anticipated no change, down slightly from 38% recorded in the previous survey, while the remaining 19% believed that operating expenses would decrease over the next six months, down from 24% recorded in December of last year.

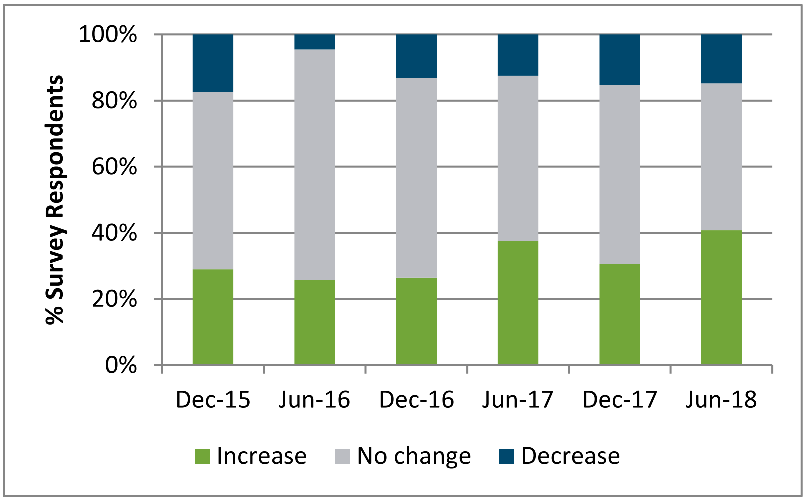
[2] The Expenditure Index (EI) is the unweighted mean of percentage of respondents that estimate future changes in expenditure in four areas, namely operating expenses, marketing, training and systems.

Figure 7 - Anticipated change in operating expenses over next six months



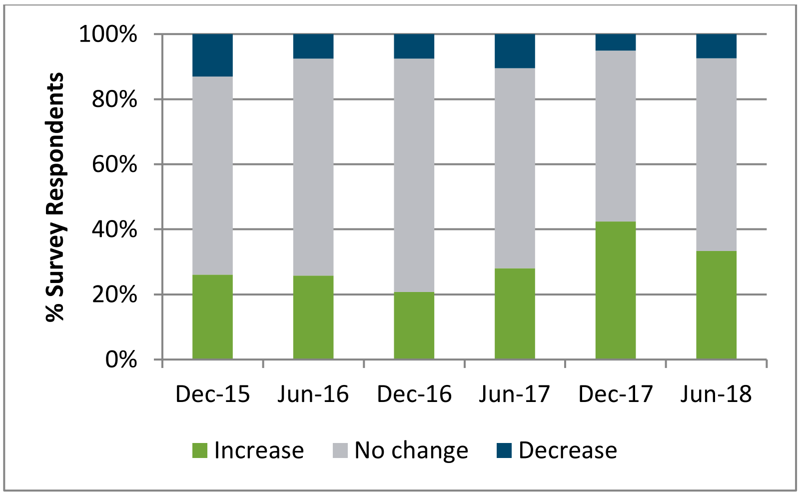
The outlook for marketing expenditure over the second half of 2018 shows that survey participants are divided between those that anticipate growth and those who expect little change. 44% of those polled anticipate that marketing expenditure in their organisations will remain unchanged over the next six months, down from 54% recorded in December 2017. However, 41% of respondents expect marketing expenditure in their organisations to increase over the next six months, up from the 31% recorded in the previous survey, while 14% of research participants expect expenditure to fall, the same percentage as recorded in December 2017.

Figure 8 - Anticipated change in marketing expenditure over next six months



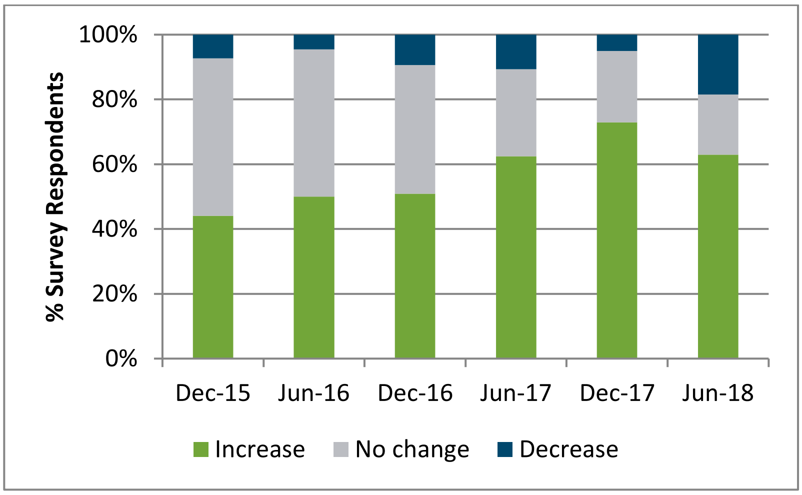
The prospects for training expenditure appear to show little change the second half of 2018. In the June 2018 survey, 59% of respondents predict that training expenditure in their organisations over the next six months will remain unchanged, up from 53% recorded last December but similar to 61% in June of last year. A further 34% anticipate that training expenditure will increase, down from 42% previously. Meanwhile, just 8% in the most recent research forecast that training spending would fall over the next six months, a similar percentage to that recorded in the December 2017 survey.

Figure 9 - Anticipated change in training expenditure over next six months



The outlook for systems expenditure for the second half of 2018 continues the optimistic trend seen in previous surveys. 63% of those polled anticipate that systems expenditure will increase in their organisations over the next six months, down from 73% in December 2017, though the same as that recorded the previous June. A further 19% forecast no change in IT expenditure, similar to the 22% recorded previously, while the balance of 19% predict a decrease in spending over the forecast period.

Figure 10 - Anticipated change in systems expenditure over next six months

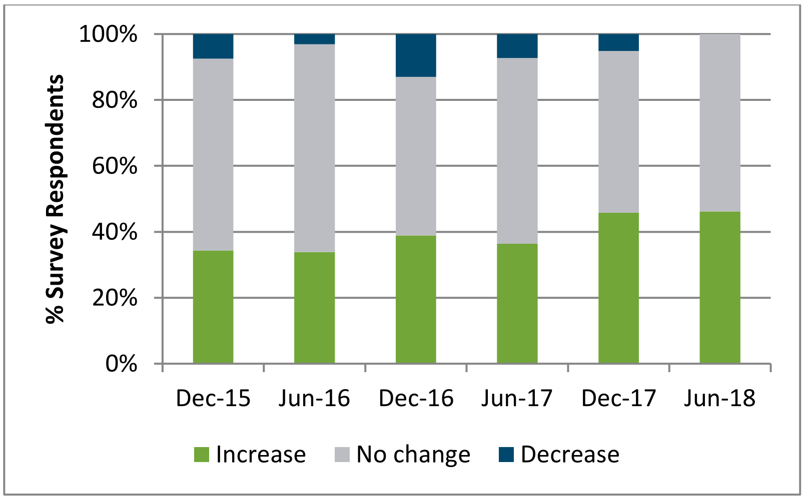


Staff numbers remain broadly stable with some growth in sales personnel

The survey asked participants about their expectations on the outlook for staff numbers in their organisations over the next six months. For sales staff, the balance of opinion remains positive, with most respondents anticipating either growth, or no change in staff numbers.

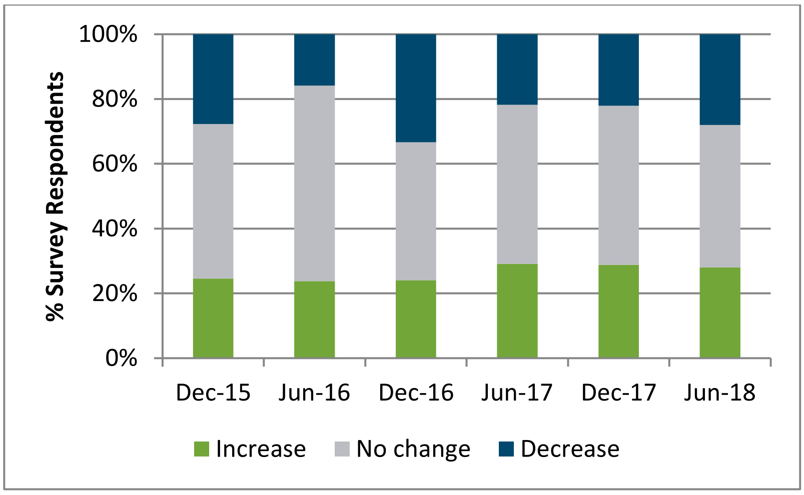
Just over half of those (54%) taking part in the June 2018 survey predicted that sales staff numbers in their organisations will remain unchanged over the next six months, up slightly from 49% recorded last December but a similar level to the previous June. 46% expect sales staff numbers to increase, unchanged from December 2017. None of the respondents anticipate a reduction in sales staff, down from 5% recorded last December.

Figure 11 - Anticipated change in sales staffing levels over next six months



The outlook for non-sales staff for the second half of 2018 shows little change from the previous survey last December, with those expecting to increase staff numbers over the next six months balanced against those anticipating a decrease. 28% of respondents in the June 2018 survey predict that non-sales staff numbers will increase over the next six months, the same percentage as in December 2017. Of the remainder, 44% anticipate that staff numbers will remain unchanged, down slightly from 49% recorded in the previous survey, while 28% of participants predict that non-sales staff numbers in their organisations will decrease.

Figure 12 - Anticipated change in non-sales staffing levels over next six months



The latest Business Confidence Survey confirms that the European leasing industry should enjoy a good finish to 2018. Growth in new business continues to remain strong, while expectations of most of the other KPIs support an overall positive trend. Sentiment on the outlook for the European leasing market remains optimistic overall, driven by sustained economic growth and investment, combined with continued access to liquidity. There seems little reason to doubt why this should not continue for the remainder of 2018, despite quantitative easing measures being progressively reduced, which will eventually limit the current flow of cheaper funding. Economic growth is forecast to remain robust in the Eurozone for the rest of this year and the beginning of 2019.

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