

CONFERENCE highlights

April 19-21, 2005, Chicago, IL

MOLDMAKING 2005
ENGINEER, BUILD, REPAIR expo

Register for *Session 2, Finance: How to Get that Equipment You Need—Financing Options for Mold Shops* at the MoldMaking Expo on Tuesday April 19, 2005 at 8:30 a.m.

See page 34 for conference details and a registration form or visit www.moldmakingexpo.com

Register Today!

Reprinted From: **MOLDMAKING TECHNOLOGY**
ENGINEER, BUILD, REPAIR magazine

FINANCE A New Lease on Life for Moldmakers

Today, many businesses are turning to lease financing to help improve the productivity and profitability of their plant facilities, at every juncture—from design and prototyping, to manufacturing and repairing. Strategic equipment financing also can ease the impact of new market entry (whether domestic or abroad) or even improve QS or ISO program efforts.

It's not an isolated trend. More than one-third of equipment acquired by businesses in the U.S. is financed through leasing programs. The majority of equipment leases are financed through independent lessors and banks that are not affiliated with any single manufacturer or dealer. But vendor leasing and finance programs, which

include in-house programs offered by major manufacturers as well as options provided by smaller manufacturers in conjunction with outside financial companies, account for 30 to 40 percent of equipment leasing volumes in the U.S., according to the Equipment Leasing Association's (ELA) recent Survey of Industry Activity.

Benefits to Manufacturing Facilities

Small and mid-size facilities are looking for alternatives that allow them to keep capital on hand. Larger corporations often are interested in utilization, not ownership. Practically all of the equipment and technology used in moldmaking can be leased. Types of *revenue-generating*

equipment and technology a facility can lease include, but are not limited to: CAD/CAM/CIE, manufacturing and scheduling software, EDM, welding, heating/cooling, tooling, machining equipment, and quality control and inspection equipment.

Leasing allows companies to:

- **Build capital strength.** Spreading acquisition costs for fixed assets (and services) over time frees up capital for investment or business expenses.
- **Preserve credit lines.** Businesses can tap into a new source of credit for present and future needs, while keeping bank lines open for other uses.
- **Generate profits.** Cash conserved by leasing can be reinvested into the business.
- **Stretch budgets.** Capital budget restrictions won't often allow for outright purchases, but operating budgets may easily accommodate a monthly payment.

More than one-third of equipment acquired by businesses in the U.S. is financed through leasing programs.

Standard Lease Options

Keep in mind budget, growth projections, projected useful life of equipment, desire for ownership and obsolescence.

Full Payment or "Dollar Out" Lease

- Recommended when lessees plan to own the equipment for the long term. Lessees benefit from fixed monthly payments, and have a guaranteed \$1.00 lease-end purchase option.

Fixed Priced Purchase Option Lease

- At lease end, the lessee can purchase equipment for a pre-stated amount, often 5 or 10 percent of its original cost.

Fair Market Value (FMV) Lease

- FMVs offer a low monthly payment. Lease end options include extending the lease term, returning equipment or buying it at its fair market value.

Custom Lease Structures

- Step Lease programs permit lessees to either increase (step-up) or decrease (step-down) payments in any given year to better address cash flow.
- Deferred Payment Leases contain a deferral of the first monthly payment. Deferrals can range from 30 to 180 days or more, depending on business-related factors.
- Sale-leasebacks (Working Capital Lease) allow the lessor to purchase equipment and lease it back to the lessee for a predetermined period of time. The equipment generates revenue, as it becomes a source for working capital.
- Master leases reflect changing short-term requirements. A master lease permits multiple transactions, and allows upgrades to existing equipment or adding new equipment for the duration of the lease term. With each addition to the original lease, payments are simply adjusted upward to reflect the cost of new equipment.

- **Match equipment financing costs to projected utilization.** Some lease contracts can be structured to mirror revenue cycles (see **Standard Lease Options Sidebar**, page 55).
- **Gain tax and accounting advantages.** Depending on the type of lease, businesses may be able to write off the entire monthly payment as an operating expense or capitalize the outlay.
- **Receive 100 percent financing, including soft costs.** Unlike bank loans, frequently no down payment is required and, typically, nor are compensating balances. Businesses can finance equipment costs along with installation, training and maintenance as well as complementary equipment and technology.

Leasing Spurs Investment in New Equipment

Leasing serves as a catalyst for industry growth, as it allows the equipment manufacturer to deliver one-stop shopping to customers as well as making the solution more affordable. Manufacturers can benefit from accelerated cash flow. In many leasing

arrangements, the financing company will usually fund the total size of the transaction as soon as the shop confirms delivery.

Expanding into Emerging Markets

More U.S. equipment manufacturers are incorporating international leasing capabilities to meet the global expansion needs of manufacturing facilities. For all parties, the availability of leasing can provide considerable financial ballast in restrictive local economies and challenging regulatory environments. There are several reasons why. Local financial institutions may not finance specific types of equipment; and rates often are not competitive. These entities may not finance large volumes per individual client due to constraints on capital or regulatory risk limits. In many cases customers may require payment terms for their equipment (and perhaps ancillary technology) and also off-balance sheet solutions and tax-deductible structures. Local financial markets in many countries have not yet developed the expertise to provide such financial instruments.

Technology is the great enabler, and its

acquisition need not financially hamper your company. Before making any significant decisions, talk them over with a trusted financial professional—and know your options. Whatever your choice, it's vitally important to consider the lessor's moldmaking experience; those who have seen peers' balance sheets are probably best in tune with your needs.

Jonathan L. Fales principal in the Alta Group (Kingsport, TN) will present a 60-minute seminar discussing the specifics of what was presented here and more.

Resources

The Monitor: www.monitordaily.com—The Web site of the leasing industry's "official" journal; contains searchable directories of leasing companies and other resources in addition to industry news.

Equipment Leasing Association: www.elaonline.com. The leasing industry's U.S. trade association.

MMT