The Alta Group℠

Global Experience Provides Direction for Equipment Leasing and Asset Finance

Through collective knowledge and experience, The Alta Group provides value for its clients in the global equipment leasing and finance industry in outcomes that increase revenue, control expenditures and improve productivity and profitability.

Decision Points... Brief

October 2009

State of the Business - A Q&A Roundtable with The Alta Group

Last January, with the economy struggling, a capital crunch mercilessly squeezing our industry and the Obama administration moving into the White House, The Alta Group's John Deane, Mike Fleming and Paul Bent convened to discuss their thoughts on what to expect this year and next. The general consensus was that 2009 should be challenging, if not interesting, for many.

Ten months later, the three Principals met again to evaluate their prognostications, examine the current landscape and refine their insights on the short- and long-term future of the equipment leasing and finance industry. The following are highlights from their conversation:

How would you characterize the current state of the U.S. economy?

Deane:
Deflation continues, as predicted. While it appears the economic decline has slowed down or maybe flattened out, there are still key indicators that are problematic. Unemployment figures continue to go up. Overall equipment demand is way down. There is still plenty of manufacturing overcapacity. The savings rate is up. All of these are very deflationary.

Capital constraints continue to hold a grip on much of our industry. How much longer will this situation last?

Fleming:
There's no question the capital markets remain tight - maybe "disciplined" is a better description - for many equipment lease companies in this country. This condition is going to remain for some time; some think for an additional 18-24 months . . . The problem not only is high credit standards, but rates remain at a level that does not attract institutional capital to invest in our industry.

Bent:
I'm seeing some hopeful signs over the last couple of months, with some new money coming into the market for limited investments in our industry. The amount of capital stowed away on the sidelines continues to grow but, at some point, decision makers will realize it's good to put

Latest edition of The Alta Group LAR 100 report now available

Latin America's equipment leasing industry is expanding four times higher than its gross domestic product (GDP) growth rate, as reported in The Alta Group's just released fifth annual report on the business outlook for the region. Entitled The Alta Group LAR 100 for 2008, the study estimates the Latin American leasing industry, valued at US $71 billion in leased portfolios, grew 15.8 percent last year in U.S. dollars and 16.7 percent in real terms when adjusted for exchange rate fluctuations.

Peru experienced the strongest leasing growth at 67 percent. Argentina's growth also was notable and Brazil, which has the region's largest leasing industry, increased its market share to 64 percent of the region's total leasing portfolio. The consultancy's ranking of the 100 largest leasing companies was headed again by Banco Itauleasing of Brazil. The presence of multinational leasing companies declined significantly last year after a decade-long increase in foreign investment. This was attributed primarily to the global economic crisis, the report concludes. Click here for a full copy of the study.

Industry veterans

some of their money to work.

Investors appear to have deep concerns with the commercial real estate market. What impact may this have on the equipment leasing industry?

Bent:
Many experts believe a collapse in the commercial real estate market is growing and that it will be as bad as or worse than what happened with residential real estate. This situation will obviously impact leasing firms that provide equipment to businesses involved in FF&E, tenant build-outs and the like. Such a collapse also has an indirect effect on our industry because another hit to the capital markets will generally cause lenders to be even more hesitant in making long-term investments anywhere.

Fleming:
There are strategic investors who will target distressed real estate because in the long run it's an appreciating asset, while the typical piece of leased equipment depreciates. Indeed, by buying real estate at no more than 50-60 cents on the dollar, they can turn these deals into lucrative investments pretty quickly . . . For investors looking to deploy capital today, their money appears to be more productive in commercial real estate with a distressed basis.

There were high hopes among some in the industry that President Obama's economic stimulus plan would favorably impact business. Has this played out as expected?

Bent:
The stimulus program hasn't really had an impact. It hasn't shortened the recession or stimulated activity in the equipment financing marketplace. There has been some movement in select sectors, such as alternative energy, but investors have simply rationalized their pricing to account for any benefits from the stimulus package. There's been no gold rush to try and get involved in these deals.

Fleming:
Nobody, us included, expected the Obama fiscal policies would take so long to enact and deploy. Given all of the proposed stimulus money, only $40-$50 billion has been distributed. I thought these fiscal moves would have more immediate impact on certain areas, such as infrastructure construction. These projects have taken much longer to launch than expected.

To read the full text of The Alta Group discussion, please click here.

Lease Accounting Changes: Business Transforming or Simply an Adjustment?

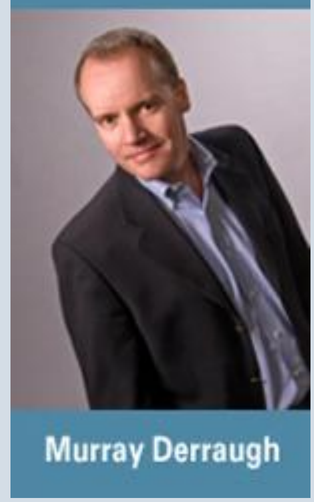
By Shawn Halladay and Michael Fleming
The Alta Group

For 15 years, leaders in the equipment leasing business have anticipated a new accounting standard for leases. During this time, these leaders have known three things: **No. 1,** lessee behavior in financing equipment acquisition could / would change, leading to **No. 2,** changes in equipment acquisition products, resulting in **No. 3,** changes in the risk / reward mix for lessees and lessors (and their channel partners).

We are now close to the new standard and have a good feeling for what it will look like. Is the new standard actually going to transform equipment leasing or simply require some adjustments? Transforming means that the motivations to lease and the value received by the lessee will change dramatically. In most cases, this will not happen. The new leasing standard will not transform equipment leasing.

To read why this is the case, please click here.

Swandel and Derraugh join The Alta Group in Canada



North American leasing industry veteran Hugh Swandel has joined The Alta Group as a managing principal of the Canadian region, with a focus on mergers and acquisitions, business management and professional development. His colleague Murray Derraugh also joined the consultancy as an associate. Through Swandel's own company in Winnipeg, the two worked jointly with Bruce Kropschot on merger and acquisitions in Canada. They became more involved with Alta when Kropschot joined The Alta Group's M&A division last year.

Earlier in his career, Swandel served as president and chief operation officer of Electronic Financial Group. He also held a number of executive positions with National Leasing Group. Swandel is well connected in the

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industry, serving on the board of the National Equipment Finance Association (NEFA) and the Canadian Finance & Leasing Association (CFLA), and is active in the Equipment Leasing and Finance Association (ELFA) in the United States.

Derraugh has more than two decades of management experience in both the manufacturing and financial services sectors. Before teaming with Swandel, he worked for National Leasing and a MasterCard affiliate. Derraugh currently leads the Canadian Lease Education On-line program for the CLFA.

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