

Mastering Innovation Through Surfing: Lessons for Business Transformation

In a podcast for TomorrowZone, Dave Anderson explains why the key to success – both in surfing and in business – is experimentation, patience, and embracing failure as part of the journey.

Take a listen! <https://podcasts.apple.com/us/podcast/mastering-innovation-through-surfing-lessons-for-business/id1741229036?i=1000673123417>



TOMORROWZONE® 

Catalyst

PODCAST

**Mastering Innovation Through Surfing:
Lessons for Business Transformation**

with David Anderson



Hello, world



As we move into 2025, MHEDA's Executive Committee has pinpointed 15 crucial business trends that will significantly impact the material handling industry. Several trends hold particular importance for our organization and our valued customers.

- Cautiously optimistic economic outlook in specific regions and industry segments, with unpredictable recovery in other areas as the market normalizes.
- Integrating AI-driven technologies, such as autonomous robots, predictive analytics, and real-time supply chain visibility, will transform traditional processes and set new standards for operational excellence.
- Pressures from other market segments, with manufacturers' capacities outpacing customer demand, are placing pressure on the storage and handling segment.
- There is a need for quick development of tech-driven solutions to integrate emerging technologies into traditional automation solutions.
- Continued impact on member sales and aftermarket operations from equipment electrification, mobile robots, and automated guided vehicles (AGV).
- Strategic partnerships between manufacturers and distributors are becoming increasingly important as demand for direct consumer business rises.
- Growing pressure on margins for distributors and manufacturers due to increased low-cost imported products.

15 MATERIAL HANDLING BUSINESS TRENDS 2025

01 ECONOMY
The economic outlook presents a challenging environment for many industries and industry segments. It is likely that continued slow growth and uncertainty will be necessary to the market for some time.

02 ARTIFICIAL INTELLIGENCE
The integration of AI-driven technologies, such as automation, robotics, and predictive analytics, will continue to drive operational efficiency and optimize processes and supply chain networks for operational excellence.

03 CASH FLOW
The industrial truck segment is experiencing cash flow pressure due to financing conditions, and pricing dynamics, necessitating a reduction in capital expenditure and asset replacement rates.

04 MARKET PRESSURE
The design and handling segment is experiencing pressure from labor shortages, rising fuel costs, and manufacturers' responses reducing customer demand.

05 EMERGING TECHNOLOGIES
Emerging technologies are raising questions as to their benefits and risks. New solutions and products are being developed, but their long-term viability remains uncertain.

06 CYBER SECURITY
Increased cybersecurity risks are prompting manufacturers to invest in advanced security solutions and to protect their data, systems, and business models.

07 CONSOLIDATION
Consolidation continues with acquisitions by private equity firms, manufacturers, and distributors.

08 CORPORATE GOVERNANCE
There are increased demands for transparency and reporting, leading to enhanced corporate governance requirements.

09 HEALTH & WELLNESS
Employees and firms are focused on safety and health, leading to investments in safety and health services.

10 REQUIREMENTS
Requirements continue to increase for equipment, including the need for increased efficiency and safety.

11 ELECTRIFICATION
Equipment electrification, mobile robots, and autonomous guided vehicles (AGVs) will continue to present market risks and opportunities.

12 GEOPOLITICS
The volatile geopolitical environment creates risks for global markets and business operations.

13 TALENT GAP
The talent gap continues to grow, increasing the challenge of hiring skilled employees to maintain operations.

14 PARTNERSHIPS
Strategic partnerships between manufacturers and distributors are more important than ever as demand for direct customer business continues.

15 IMPORTED PRODUCTS
There is an increase in low-cost imported products putting pressure on margins for both distributors and manufacturers.

Learn More About the 2025 Business Trends Today!
www.mheda.org

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CONSTRUCTION BUSINESS



5 WAYS TO LEAN INTO CREATIVE FINANCING TO GIVE YOUR BUSINESS A NEW LEASE ON LIFE IN UNCERTAIN TIMES

BY NELSON ABELHA

Life in the construction sector hasn't been easy lately, given the challenging economy and uncertainties at every turn. Unfortunately, it looks like we'll all need to continue to keep our seat belts tightly fastened for the foreseeable future. In a recent economic update, Ken Wattret, vice president of global economics at S&P Global Market Intelligence, says: "The path forward will likely remain bumpy, given numerous US-related uncertainties, including the risk of a hard landing, the timing and magnitude of policy rate cuts, and the outcome of elections in November and their policy implications."

For those in the construction industry, the path to persevere and grow isn't as clear-cut as in the past. Adaptability is crucial, and this adaptability should also apply to construction equipment financing.

Full Market Value (FMV) leases, which can often be viewed as rigid or conventional, can be customized to meet unique business demands. This ushers in newfound flexibility to help companies adapt and adopt new approaches.

The industry is employing FMV leases in creative ways, empowering companies to navigate significant obstacles and capitalize on new opportunities.

Below are five use cases highlighting the flexibility and potential of FMV leases as creative financing strategies for the construction sector.

1 – CROSSING BORDERS TO SECURE THE RIGHT EQUIPMENT

One area where creative financing approaches can come to the rescue is in the instance of cross-border equipment financing. This may come into play when the equipment needed for your project doesn't happen to exist in the country you currently operate within. Sometimes, a client may require a piece of equipment built overseas or that exists presently overseas.

Recently, a construction company based in Canada needed to purchase a machine from a dealer in the United Kingdom. The complexities of cross-border transactions can be challenging, especially when it comes to securing the necessary funds. Creative leasing approaches were of benefit here, not only to fund the down payment and ensure the transaction could move forward but also to fully fund the deal before the machine was even shipped to Canada. This approach minimized the financial risk for the company. It streamlined the entire transaction process, making it possible for them to acquire the equipment they needed without delay while enabling them to continuously focus on their day-to-day operations.

2 – MAKING FLEXIBLE PAYMENT STRUCTURES ALIGN WITH CASH FLOW

Cash flow management is critical for construction companies, especially when dealing with large equipment purchases. However, as anyone in the industry knows, cash flow can and often does fluctuate, particularly in the initial months of a contract.

Creative financing approaches can take a debt load off in these scenarios. Look for unique finance structures, such as deferred and skip payments, that align with your revenue streams. By deferring payments or allowing skips in the early months, companies can focus on completing their projects without the added pressure of immediate, substantial payments.

Alternatively, if your business performs seasonal work, such as fewer highway paving projects in the winter months or snow removal in the winter months with less usage in the summer months, payment months can align with months with the highest incoming receivables, making payments much more manageable.

3 – FINANCING SPARE PARTS TO PREVENT DOWNTIME

Unplanned machine downtime can be incredibly costly, so it's crucial to have spare parts on hand, particularly because replacement parts can be in short supply. Over the past few years, the industry has experienced lengthy lead times for replacement parts.

To help maintain operational efficiency, creative financing approaches can offer needed resources specifically for spare parts purchased along with the machine orders. This proactive approach allows companies to stock essential components to keep their operations running smoothly, by avoiding crucial part shortages and lengthy downtimes.

4 – INTERIM FINANCING FOR FACTORY-ORDERED MACHINES

Long lead times are often required for factory-ordered machines, and manufacturers typically demand a down payment before commencing the build process. For many companies, this presents a significant cash flow challenge, particularly when a machine can take upwards of nine months or longer to build. Creative financing strategies can address this issue by financing the interim payments. This allows organizations to avoid substantial out-of-pocket expenses before the machine is built and operational, providing the financial flexibility needed to begin paying for the equipment once it is put into operation. In this way, companies can achieve a positive return on their equipment investments immediately.

5 – FIRST AMENDMENT LEASES: FLEXIBILITY FOR THE LONG TERM

Creative financing can offer the best of both worlds – a structure that begins with an operating lease, complete with a residual, but with the ability to extend and transition into a full payout term. This innovative approach gives organizations the flexibility to adjust their financing as their needs evolve, giving them more flexibility regarding their assets. Initially, a company can benefit from the lower payments and flexibility of an operating lease. Later, if desired, a company can amend the lease to fully amortize the equipment, retaining it for the long term, giving them more flexibility regarding their assets.

FAIR MARKET VALUE LEASES: THE CREATIVE FINANCING OPTION THAT GIVES YOU OPTIONS

FMV leases can be more than just a standard financing option, they can be incredibly flexible and adaptable; lease terms can be adjusted to address specific needs and an organization's financial scenario, which is especially crucial when the business outlook and/or cash flow may be unpredictable.

As the use cases above illustrate, they can be a powerful tool to help your business grow, adapt, and thrive. Whether you're dealing with cross-border transactions, managing cash flow, or planning for future equipment needs, creative financing approaches can help you access needed resources.

As César Pelli, the famous Argentine-American architect who designed some of the world's tallest buildings and other major urban landmarks, noted, "Construction is a matter of optimism; it's a matter of facing the future with confidence." Creative financing gives the construction sector greater capacity and confidence to navigate today's business and economic challenges.



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THE LIST FASTEST-GROWING LARGE PRIVATE COMPANIES

RANKED BY TWO-YEAR REVENUE GROWTH

Rank	Company •Address	Company logo	Two-year revenue growth	Revenue for the 12 months ended			OC employees as of	Company/product description	Top local official(s) •Title •Phone/fax	
				6/30/2024	6/30/2023	6/30/2022				
1	CBC Bancorp 19752 MacArthur Blvd., Ste. 100 Irvine 92612-2422 Website: cbcocal.com Email: apatel@cbcal.com		119.8%	\$142.5 million	\$112.8 million	\$64.8 million	201 118 110	Bank holding company of Commercial Bank of California	Ash Patel CEO/chairman/president (714) 431-7000	
2	First Financial Equipment Leasing 750 The City Drive S., Ste. 300 Orange 92868-6905 Website: ffequipmentleasing.com Email: info@ffequipmentleasing.com		118.9%	\$113.8 million	\$88.2 million	\$52 million	64 52 37	Leasing and financing solutions designed to conserve capital and offer affordable access to equipment and services	Tom Slevin co-founder/CEO (714) 646-1600/(714) 646-1601	
3	Salas O'Brien 8825 Research Drive Irvine 92618-4236 Website: salasobrien.com		86%	\$633.2 million	\$486.8 million	\$340.4 million	71 66 55	Engineering and technical services firm	Darin Anderson chairman/CEO (949) 517-4900	

Fastest-Growing Private Companies Report 36% Sales Increase

Alliant Expands 48% to \$4.5B;
Flight School Lender Soars 2,312%

By EMILY SANTIAGO-MOLINA

ORANGE COUNTY — On this year's list of the fastest-growing private companies headquartered in Orange County, the 45 small, mid-size and large businesses reported growing 36% to \$13.3 billion during the two-year period ended June 30.

As would be expected, the 16 small companies grew the fastest, 98% to \$85 million, while the 21 midsize companies, with revenue between \$10 million and \$99.9 million, increased 72% to \$776 million.

The eight companies, with revenue topping \$100 million, while growing at a slower pace of 34%, had the bulk of the sales, \$12.4 billion. The two biggest providers of that revenue were Irvine-based **Alliant Insurance Services Inc.**, which climbed 48.2% to \$4.5 billion, and Santa Ana's **Foundation Building Materials Inc.**, which grew 16.6% to \$4.9 billion.

Alliant, the largest insurance broker in Orange County and one of the largest worldwide, broke its own goal from last year to surpass \$4 billion.

"Alliant has achieved exponential growth on the strength of retaining and recruiting top talent, focusing on organic growth, and making strategic acquisitions — then providing the high-quality products and resources required to lead in the marketplace," Chief Executive **Greg**



Irvine HQ of Alliant Insurance Services, which reported two-year revenue growth of 48%

Zimmer, who succeeded **Tom Corbett** at the beginning of 2024, told the Business Journal.

Alliant's past few years of acquisitions have helped drive the broker's operations. In October 2023, the firm acquired three different insurance agencies in Oklahoma.

"In acquisitions, Alliant is extremely selective and diligent in evaluating the firms we're looking to work with — it's a very purposeful approach to acquiring," Zimmer said.

This year's growth rate is slightly down from 54% reported on last year's list.

The cutoff was 15% growth, keeping previously prominent growers like **KPRS Con-**

struction Services Inc. and **SA Recycling** off the list.

A Loan to Fly

The local firm that represented the greatest two-year revenue growth was **Stratus Financial LLC** in Newport Beach. Ranked in the small companies category, the lending agency for pilots-in-training flew to \$9.8 million in revenue for the 12-month period ended June. In 2022, the company recorded around \$406,000.

"Recognizing the financial barriers that many students face, we provide tailored funding options that allow individuals to pursue flight training without being held back by the high cost of education," co-founder and Chief Operating Officer **Brandon Martini** said.

"In the past year, we have made significant strides in expanding our network of school partnerships, allowing us to reach even more aspiring pilots," he added.

Stratus has 263 flight school partnerships as of August, compared to the almost 150 schools the firm counted a year ago.

The lender also gained new financing last month from **Monachil Capital Partners** of up to \$50 million which will go to originating new loans.

Inland Building Growth

In the midsize category, Orange-based

homebuilder **RC Hobbs** reported 12-month revenue of \$66.5 million ended June, showing a 639.3% increase from 2022 figures.

CEO **Roger Hobbs** attributed the two-year growth to his team's focus on the Inland Empire market for homebuilding, specifically with first-time homebuyers.

"The Inland Empire provides many more land opportunities [being] vacant and underdeveloped. Cities are wanting more homes and are pro-development," Hobbs said.

Anaheim-based general contractor **Americo Builders LLC**, and list newcomer, pointed to the importance of choosing the clients they best align with to better spur growth.

"If they're just looking for the lowest bidder, they don't want to partner with us to build the project together," President **Chris Kent** said. "We like to work from the same side of the table. If we don't see that, we typically won't move forward," he added (see story, page 16).

Americo recorded an 180.8% increase in 2024 revenue compared to 2022, reporting \$69.4 million for the 12-months ended June 30.

In the large company category, **CBC Bancorp** reported 12-month revenue reaching \$142.5 million as of June, rising 119.8% over the last two years.

"Most of the big banks are focused on larger companies," Chairman and CEO **Ash Patel** said. "Our minority-owned status instead creates a tight focus on the [small] businesses in our community."

The bank has also doubled its headcount since 2022 with 201 employees as of June. CBC is expecting even more growth upon the upcoming merger with Oakland-based **Bay Community Bancorp.** ■

FASTEST-GROWING PRIVATE COMPANIES

LEARN HOW ORANGE COUNTY COMPANIES ARE LEADING IN REVENUE GROWTH

AMERICO BUILDERS GROWS REVENUE 180.8% YEAR-TO-DATE

PLANT 360 DIGITAL SOFTWARE DRIVES GROWTH

SMALL, MIDDLE AND LARGE BUSINESSES REPORT 36% GROWTH YEAR-TO-DATE

ELSEWHERE

FASTEST-GROWING COMPANIES AND EXPANSION IN THE REGION

THE LISTS

LARGE COMPANIES

MIDSIZE COMPANIES

SMALL COMPANIES



WHICH LEASE TYPE IS MORE FLEXIBLE? DEBUNKING MYTHS & MISCONCEPTIONS

UNDERSTANDING THE TRUE NATURE OF FAIR MARKET VALUE (FMV) AND CAPITAL LEASING AGREEMENTS CAN HELP COMPANIES MAKE MORE INFORMED DECISIONS ALIGNED WITH THEIR OPERATIONAL NEEDS AND STRATEGIC GOALS.

BY NELSON ABELHA

Construction companies often need to make decisions about how to finance their heavy equipment. There are two main options: operating leases, also known as Fair Market Value (FMV) leases, and capital leases, also known as finance leases.

Although both leasing options have their advantages, there's a common misconception that capital leases offer greater flexibility. However, a closer look shows that FMV leases may actually be a better choice to provide the quintessential operational versatility that construction companies need.

Let's take a closer look at each leasing type to debunk the myth of capital lease flexibility and highlight how and why FMV leases can provide optimal flexibility, making this lease type a far superior choice.

UNDERSTANDING CAPITAL LEASES

Capital leases essentially give the lessee (borrower) ownership of the equipment. The lease term typically covers most of the equipment's useful life. At the end of the lease term, the lessee has the option to purchase the equipment for a nominal fee, usually \$10 or \$1. This type of lease is recorded as an asset and a liability on the company's balance sheet, reflecting the equipment's value and the obligation to make future lease payments.

Advantages of Capital Leases

1. **Ownership benefits** The lessee eventually owns the equipment, which can be advantageous if the machinery has a long operational life and is essential to the company's core activities.
2. **Depreciation** Although I'm not an accountant, nor do I play one on TV, the company can benefit from tax advantages related to the equipment's depreciation.
3. **No usage restriction** There is no limitation on how many hours a construction company can operate the machinery throughout the lease term. Since the equipment cannot be returned, there are also no concerns about its condition at the end of the lease term. This is beneficial if the equipment is heavily used and may not be in a suitable condition for return. At first blush, capital leases may seem to offer quite a bit in the way of flexibility, but there's more to this story. Despite these advantages, capital leases may not be as flexible as they appear.

The Illusion of Flexibility in Capital Leases

The perception of flexibility with capital leases often comes from the aspect of ownership. However, this ownership can limit flexibility in several ways:

1. **Long-term commitment** Capital leases require a long-term commitment to the equipment. This can be a significant drawback if a company's needs change or technological advancements render the leased equipment obsolete. In an industry where machinery and technology evolve rapidly, being tied to older equipment can be a disadvantage.
2. **Balance sheet impact** Since capital leases are recorded as assets and liabilities, they increase a company's debt-to-equity ratio – a key financial statement metric. This can affect the company's financial health, potentially making it more challenging to secure additional financing or impacting borrowing costs, which can restrain growth.
3. **Maintenance and disposal** Ownership means the lessee is responsible for all maintenance and disposal costs. These costs can be substantial for heavily used construction equipment. Additionally, the company must manage the logistics of selling or disposing of the equipment at the end of its useful life, adding another layer of complexity. This often means the company must employ its own team of technicians.

THE TRUE FLEXIBILITY OF FMV LEASES

Alternatively, FMV leases offer a different kind of flexibility that can be aligned with the dynamic needs of construction companies. Under an FMV lease, the lessee pays for the use of the equipment for a specified period, with the option to purchase the equipment at its fair market value at the end of the lease term. Alternatively, the lessee can choose to return the equipment or renew the lease, and in some cases, this can be on a month-to-month basis.

Advantages of FMV Leases

1. **Lower monthly payments** FMV leases typically have lower monthly payments compared to capital leases. This is because the lessee is not paying for the full cost of the equipment, just for its use during the lease term. Lower payments improve cash flow, allowing the company to allocate financial resources to other critical areas.
2. **Upgrade options** At the end of the lease term, companies can return the equipment and lease newer models. This is particularly beneficial in the construction industry, where technology and equipment quickly become outdated. The ability to upgrade ensures the company always has access to the latest and most efficient machinery.
3. **Maintenance and repairs** Many FMV leases include maintenance and repair services. This reduces downtime and transfers the burden of maintenance costs away from the company while helping ensure the equipment remains in optimal condition throughout the lease term.
4. **Flexibility at lease end** FMV leases provide multiple options at the end of the lease term: The lessee can return the equipment, purchase it at fair market value, or extend the lease. This flexibility allows construction companies to adjust their equipment needs based on business conditions and project requirements.

DEBUNKING THE MYTH

Many people mistakenly believe that capital leases offer more flexibility due to the traditional association of ownership with control. However, in the fast-paced construction industry, where adaptability and financial agility are crucial, Fair Market Value (FMV) leases often provide superior flexibility. They enable companies to keep up with technological advancements, manage cash flow more effectively, and avoid the pitfalls associated with long-term ownership commitments.

While capital leases have their own benefits, they do not necessarily provide greater flexibility. For numerous construction companies, FMV leases present a more versatile and financially prudent option. Understanding the true nature of these leasing agreements can help companies make more informed decisions aligned with their operational needs and strategic goals. The real flexibility lies in the ability to adapt to changing circumstances – something that FMV leases facilitate far better than capital leases.

The True Flexibility of FMV Leases

Pay for the equipment over specified period then purchase, return, or renew the lease.

PROS:

- Lower Monthly Payments
- Upgrade Equipment as Needed
- Maintenance & Repairs Included
- Flexibility at End of Lease

Limitations of Capital Leases

Similar to a loan, company owns equipment and buys out lease at end of term.

CONS:

- Higher Monthly Payments
- Long-term Commitment
- Responsible for Maintenance & Disposal
- Risk of Equipment Obsolescence
- Affects Company's Debt-to-Equity Ratio

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2. **Balance sheet impact** Since capital leases are recorded as assets and liabilities, they increase a company's debt-to-equity ratio – a key financial statement metric. This can affect the company's financial health, potentially making it more challenging to secure additional financing or impacting borrowing costs, which can restrain growth.
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2. Upgrade options At the end of the lease term, companies can return the equipment and lease newer models. This is particularly beneficial in the construction industry, where technology and equipment quickly become outdated. The ability to upgrade ensures the company always has access to the latest and most efficient machinery.
3. Maintenance and repairs Many FMV leases include maintenance and repair services. This reduces downtime and transfers the burden of maintenance costs away from the company while helping ensure the equipment remains in optimal condition throughout the lease term.
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DEBUNKING THE MYTH

Many people mistakenly believe that capital leases offer more flexibility due to the traditional association of ownership with control. However, in the fast-paced construction industry, where adaptability and financial agility are crucial, Fair Market Value (FMV) leases often provide superior flexibility. They enable companies to keep up with technological advancements, manage cash flow more effectively, and avoid the pitfalls associated with long-term ownership commitments.

While capital leases have their own benefits, they do not necessarily provide greater flexibility. For numerous construction companies, FMV leases present a more versatile and financially prudent option. Understanding the true nature of these leasing agreements can help companies make more informed decisions aligned with their operational needs and strategic goals. The real flexibility lies in the ability to adapt to changing circumstances – something that FMV leases facilitate far better than capital leases.

The True Flexibility of FMV Leases

Pay for the equipment over specified period then purchase, return, or renew the lease.

PROS:

- Lower Monthly Payments
- Upgrade Equipment as Needed
- Maintenance & Repairs Included
- Flexibility at End of Lease

Limitations of Capital Leases

Similar to a loan, company owns equipment and buys out lease at end of term.

CONS:

- Higher Monthly Payments
- Long-term Commitment
- Responsible for Maintenance & Disposal
- Risk of Equipment Obsolescence
- Affects Company's Debt-to-Equity Ratio

Hello, world

<https://youtu.be/qZ0VtgfmHeM>

We're thrilled to announce our partnership with America In Motion to offer their customers 100% financing for AGV Mobile Robots. We handle all upfront costs, allowing customers to preserve their working capital. We take care of all upfront deposits and expenses from the initial concept to processing, delivery, and installation.

This can result in significant day-one savings and an immediate return on investment. If you're seeking to conserve cash and bring predictability to expenses while advancing your automation projects, First Financial Equipment Leasing is ready to assist you. Hello, world

ORANGE COUNTY BUSINESS JOURNAL

WOMEN — IN FINANCE —

CUSTOM CONTENT • July 22, 2024

Orange County Business Journal: Women In Finance 2024
July 22, 2024

Uyen Tran, the vice president, GL Accounting Manager at First Financial Equipment Leasing, has made an exceptional impact on the company's accounting department over the past year through her remarkable leadership skills. Under her strategic guidance, the team has achieved unprecedented success, transforming a department with high turnover into one that is

highly efficient, effective, and exceptionally skilled.

When she assumed the role of controller in May 2023, following the departure of the previous controller, she was able to produce financial statements in only 40% of the time it originally took. Tran's dedication to fostering a cohesive and professional team has resulted in significant enhancements to our financial processes, leading to a remarkable increase in efficiency and accuracy. Her leadership has not only raised the bar for our entire company but also inspired her team to strive for excellence consistently in all our endeavors.

Tran's significant improvements to our month-end closing process, a 60% increase in efficiency, have profoundly impacted our company's success. Additionally, she developed a robust Balance Sheet reconciliation process that added 44 more General Ledger accounts for our team to reconcile, an increase of 51% from the number of accounts that were reconciled in the previous fiscal year. By streamlining the production of financial statements and introducing new reconciliation and documentation processes, she has further enhanced efficiency and internal control. Tran's exceptional value to our company is immeasurable, and her contributions have been pivotal in driving our success.



Uyen Tran
Vice President, GL Accounting Manager
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CONSTRUCTION BUSINESS



OPTIMIZE YOUR EQUIPMENT COST PER HOUR

THE DOLLARS AND SENSE OF FAIR MARKET VALUE LEASES

BY NELSON ABELHA

Leasing provides an affordable way to update and upgrade business equipment, preserving cash for other needs. The choice between Fair Market Value (FMV) and capital leases can significantly impact operational efficiency and financial health. To make the best choice, it's crucial to understand leasing option advantages, particularly in terms of cost per hour.

THE DIFFERENCE BETWEEN FMV LEASES AND CAPITAL LEASES

FMV leases are operating leases and the prevalent choice in the market today. With FMV leases, the lessee can use the equipment for a specific period, paying relatively lower monthly installments. At the end of the lease term, the lessee has the flexibility to return the equipment, purchase it at its fair market value, or extend the lease. This empowers businesses to align equipment usage with evolving needs, making FMV leases a practical and versatile option.

Capital leases, also known as finance leases, are more akin to a loan. The lessee essentially finances the equipment purchase, typically with higher monthly payments, and owns the equipment at the end of the lease term. With this type of lease, there are higher monthly payments when compared to an FMV lease, but at the end of the lease term, the lessee purchases the equipment for \$1. This is like an equipment loan and is ideal if you plan to keep the equipment for a long time, or when equipment obsolescence isn't a concern.

COST PER HOUR ANALYSIS

Cost per hour is a crucial metric that measures the total cost of owning and operating equipment; it's calculated by dividing the total payments for the initial lease term by the number of hours the equipment is used.

FMV leases can provide several cost per hour advantages:

Lower monthly payments

Since FMV leases do not require the lessee to pay the full equipment cost over the lease term, the monthly financial burden is significantly reduced compared to capital leases. Lower payments mean better cash flow, allowing businesses to allocate funds to other critical areas, such as labour, materials, and project development.

Maintenance and repair costs

FMV leases often include maintenance and repair services as part of the lease agreement. This can equate to substantial savings in equipment operation cost per hour. With maintenance covered, businesses can dodge unexpected repair costs, reduce downtime, and ensure equipment is always in optimal working condition. In contrast, with a capital lease,

The lessee is typically responsible for maintenance and repairs, which can be unpredictable and costly.

Technological advancements

Heavy construction equipment technology is constantly evolving. With an FMV lease, companies can upgrade to newer, more efficient models at the end of the lease term without the financial burden of owning outdated equipment. This ensures ongoing access to the latest technology, for greater productivity and reduced operational costs. Capital leases could lock companies into long-term ownership of equipment that may become obsolete, leading to higher costs due to less efficiency.

Flexibility and scalability

FMV leases offer greater flexibility compared to capital leases. Projects vary in scope and duration, and it's critical to adjust equipment needs accordingly. With FMV leases, companies can scale equipment fleets up or down based on project requirements without long-term ownership commitment. This ensures equipment costs align with actual usage, optimizing cost per hour.

Tax advantages

FMV leases can offer tax benefits not available with capital leases. Lease payments under an FMV lease are often fully deductible as business expenses, reducing taxable income which can provide significant tax savings, lowering overall equipment operation cost per hour. Capital leases typically allow for depreciation deductions, which may not be as advantageous depending on a company's tax scenario.

FMV leases offer several advantages over capital leases for heavy construction equipment, especially in cost per hour, making FMV leases an appealing option for construction companies seeking to improve their operations and financial well-being.

TWO SCENARIOS: FMV AND CAPITAL LEASE OPTIONS		
	FMV LEASE	CAPITAL LEASE
XYZ Construction Company is evaluating leasing options for a \$705,000 articulated dump truck (ADT).	XYZ opts for an FMV lease with a monthly payment of \$18,437.19 over two years. Maintenance and repairs are included in the lease. At the end of the term, XYZ can return the equipment and lease a new model.	Alternatively, XYZ could choose a capital lease with a monthly payment of \$31,177.70 over two years, and be responsible for all maintenance and repair costs, estimated at \$15,000 annually.
Top-Line Cost Analysis	<ul style="list-style-type: none"> Total lease payments: \$18,437.19 x 24 months = \$442,492.56 Maintenance and repair costs: \$0 (included) Total cost: \$442,492.56 	<ul style="list-style-type: none"> Total lease payments: \$31,177.70 x 24 months = \$748,264.80 Maintenance and repair costs: \$15,000 x 2 years = \$30,000 Total cost: \$778,264.80
Cost Per Hour Breakdown (if XYZ uses the excavator for 1,500 hours per year):	\$442,492.56 / (1,500 hours x 2 years) = \$147.50 cost per hour	\$778,264.80 / (1,500 hours x 2 years) = \$259.42 cost per hour
<p>In this scenario, the FMV lease provides a significantly lower cost per hour – a savings of \$111.92 per hour – which would cover the costs of more than two unionized machine operators.</p>		

“The choice between Fair Market Value (FMV) and capital leases can significantly impact operational efficiency and financial health.”

— NELSON ABELHA, Regional Vice President, First Financial Canadian Leasing

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