

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 longterm 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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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

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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
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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	• Total lease payments: $18,437.19 x 24 months = $442,492.56 • Maintenance and repair costs: $0 (included) • Total cost: $442,492.56	• 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

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.

"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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Secured Research surveyed over 1400 Middle Market CFOs, 5000 Small Business Decision Makers, and 2600 Equipment Sellers on over 800 topic areas for the first six months of 2024. Here are key data points to help drive strategy for a strong year-end close:

- 58% of Middle Market CFOs and 27% of Small Business decision-makers plan to proceed with previously delayed capital expenditures due to improved economic conditions and lower interest rates.
- There is a reported "moderate to severe" contraction in credit terms from primary banks, providing opportunities for well-capitalized lenders to gain market share. This means that credit terms have become more restrictive, making it more difficult for businesses to obtain loans or financing.
- While over 60% of all audiences express concerns about the upcoming election's impact on growth investment plans, historically, the impact of elections on capital expenditures has been limited.
- The shift towards subscription-based or as-a-service-based capital expenditure consumption is evident, with a 21% increase in the middle market and a 13% increase in small businesses.
- Infrastructure spending is gaining momentum, with construction firms reporting higher backlogs and $1.2 trillion in government funding being utilized.
- Despite revenue pressures, a significant percentage of manufacturers plan to increase automation investment to address labor issues.
- New electric vehicle and battery factory construction is on the rise, with significant capex spending expected to continue through at least 2026.
- Equipment sellers are increasingly open to new finance partnerships and seeking alternatives, reflecting a notable shift from previous years.

Our Analysis – In today's challenging economic climate, businesses may find it difficult to secure financing through traditional banking channels. At times like these, it's essential to consider alternative solutions, such as leasing arrangements offered by First Financial. As a robust and independent equipment leasing provider, First Financial stands ready to extend credit when other avenues may be closed off.

By opting for leasing solutions, businesses can confidently proceed with capital expenditures that may have been put on hold due to financial constraints. This approach not only ensures the acquisition of necessary equipment but also brings stability to resource allocation and cost planning. Moreover, equipment financing through leasing minimizes upfront costs, bolsters cash flow, and potentially increases purchasing power. This, in turn, enables access to high-quality equipment and supports equipment customization, while also simplifying the process of replacing outdated equipment and averting maintenance costs and production inefficiencies.Hello, world

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REFACTOR YOUR CONSTRUCTION EQUIPMENT ACQUISITION PLAN IN AN ERA OF ECONOMIC UNCERTAINTY AND CONSTRAINED LENDING

BY NELSON ABELHA



WHETHER YOU'RE BROADENING THE SCOPE OF YOUR EXISTING COMPANY OR CONTRACTING A MAJOR PROJECT, HAVING THE RIGHT EQUIPMENT TO GET THE JOB DONE IS A NECESSITY.

Refactor Your Construction Equipment Acquisition Plan in an Era of Economic Uncertainty and Constrained Lending

By Nelson Abelha

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Hello, world

The construction industry is poised for significant growth in the latter half of 2024, driven by increased construction spending and substantial investments in infrastructure projects. The recent passing of the Bipartisan Infrastructure Law and the Infrastructure Investment and Jobs Act is set to inject billions of dollars into the construction sector, opening up opportunities for contractors specializing in upgrading transportation networks, water and energy systems, and public buildings.

Companies must maintain financial flexibility to capitalize on these opportunities. However, challenges like fluctuating material costs and labor shortages continue to persist. To thrive in this environment, contractors must embrace technological advancements, implement sustainable construction practices, and invest in workforce development initiatives. With economic uncertainties looming, contractors must prioritize robust financial planning and effective risk management. Developing comprehensive project budgets and securing favorable financing terms will be essential in successfully navigating market fluctuations.

When considering acquiring new equipment for upcoming projects, businesses should explore alternative financing options such as leasing, as it conserves capital and offers the benefit of 100 percent financing with no down payment required. Adapting to change and proactively managing risks will be key to achieving success, and staying informed of data and trends will establish a solid foundation for sustainable growth.

Please visit CONEXPO’s website for more information about the challenges and opportunities facing the construction industry in the second half of 2024.Hello, world

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The independent voice of equipment finance.

JA Mitsui Leasing, through its subsidiary, JA Mitsui Leasing USA, acquired a 100% interest in Oakmont Capital Services, a specialty finance company that delivers solutions for small-ticket equipment.

“We are excited to supercharge JAML’s strategic North American expansion efforts alongside this highly skilled and experienced team,” Kiyoshi Doi, CEO of JA Mitsui Leasing USA, said. “As a consequence of continued capital markets dislocation, the equipment finance landscape is undergoing profound changes, and the Oakmont Capital team’s deep industry expertise will enable JAML to effectively meet the extensive financing needs of U.S. companies.

“The Oakmont platform is a natural complement to our group companies in the United States, including First Financial Equipment Leasing, Katsumi Global (dba JA Mitsui Capital Americas), and Modern Rail Car. Collectively, JAML can now deliver comprehensive, expert, and timely lending and leasing solutions across the North American market.”

“For over 25 years, OCS has built rapport within the equipment finance industry and with our customers,” Joe Leonard, president, CEO and co-founder of Oakmont Capital Services, said. “We’re honored to join the JA Mitsui Leasing family of companies to take our offerings to the next level and better serve our customers, partners and employees.”

“For over six years, OCS has been on an upward trajectory in volume, technological advancements, headcount and more,” Daryn Lecy, vice president and COO of Oakmont Capital Services, said. “We’re thrilled to combine our strengths and resources with JA Mitsui Leasing to elevate our offerings and continue to approach a growth mindset with a strong strategic vision that will benefit all.”

Established in 1998 as an equipment finance broker, Oakmont Capital Services has matured into a direct lender with offices in West Chester, PA, and Albany, MN, and a staff of more than 60 finance professionals. The company will continue to use the Oakmont Capital Services brand, and there will be no changes to the current management or team.Hello, world