

LaSalle Solutions

THE **RIGHT** PARTNER
CHANGES EVERYTHING





EQUIPMENT LEASING



Monday Math Lesson! Get Excited



Terms and Conditions

How to pick the right partner, what to watch out for



Program Design

What to lease, and how to set up a smart refresh cycle



Identify Right of Use Assets

Compliance and Asset management



Disposal

Data wipe and disposal program



FASB Changes

Leases are moving on the balance sheet. What that means for you



Bonus Depreciation?

Tax savings, and a few new rules



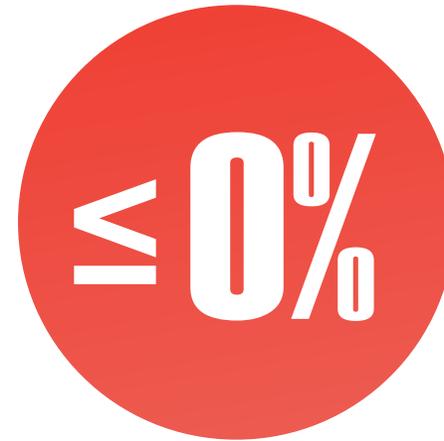
Leasing implicit interest rates are generally lower than loan and tax-exempt coupon rates.

Leasing company makes an equity investment in equipment based on our ability to remarket at the end of a lease.



The Goal of Equipment Leasing

- Leasing provides a hedge and offers lower effective interest rates.

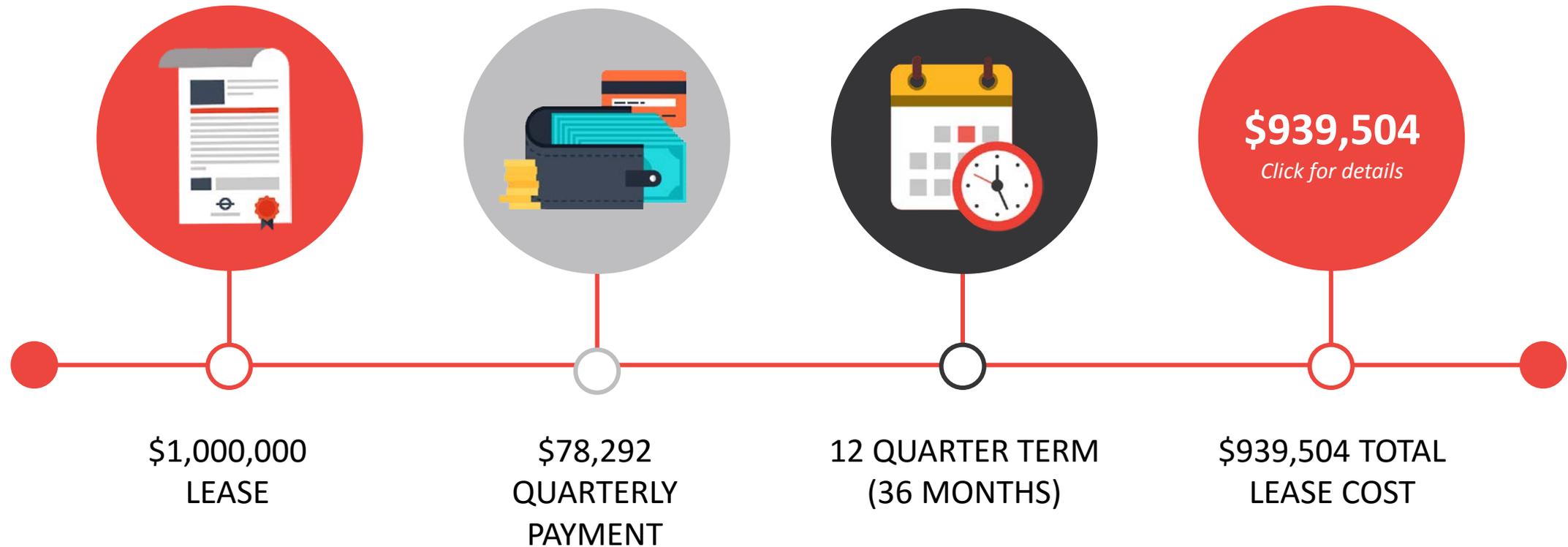


Achieve an effective interest rate around 0% when equipment is upgraded or replaced at the end of the lease.

- If part of the leased equipment is returned and the remainder re-leased or purchased, the overall effective rates are low.

LEASING MADE SIMPLE

How It Works

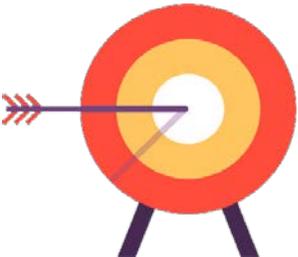


\$1,000,000 - \$939,504 = \$60,496 (6% Savings) | IRR: -4.46



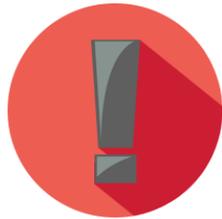
KNOW THE DETAILS

\$1,000,000 lease | 12 quarter term (36 months) | \$78,292 quarterly payment



Total Payment With no yield enhancement:

\$939,504 | IRR -4.46%



Potential Industry Totals:

\$1,192,088 | IRR 10.69%

*Avoid overages and achieve an **IRR around 0% or less** if equipment is upgraded or replaced at the end of lease term.*

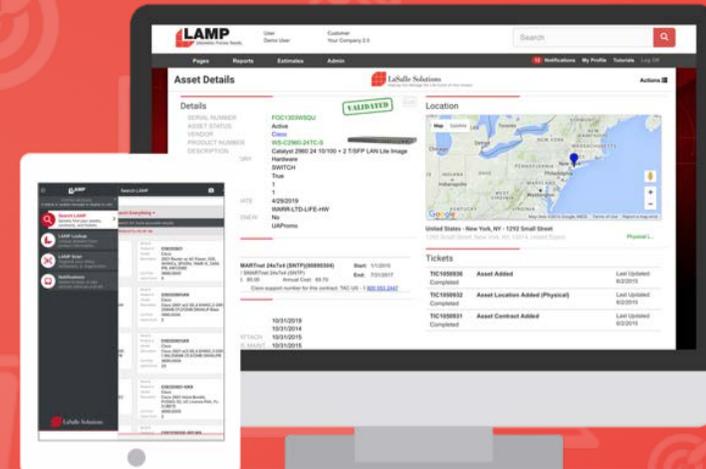
POTENTIAL INDUSTRY COSTS

Beware of yield enhancers and other provisions that some lessors employ to boost their margins.



Total Payment After 3 Years: \$1,192,088 | IRR 10.69%

What should I lease?



Rapidly Depreciating Assets

- Pumps, Scopes, Patient Monitors
- Carts, Lab Equipment, Mobile Equipment



Avoid Technology Obsolescence

- Laptops, Desktops, Tablets
- Backbone of Network
- Printers, Touchscreen Monitors
- Latest and Greatest Testing Equipment



Stop Leasing Equipment you will keep for 10 years!

- MRIs
- CTs
- Generators, other capital improvements



QUARTERLY PROGRAMS

Install Date

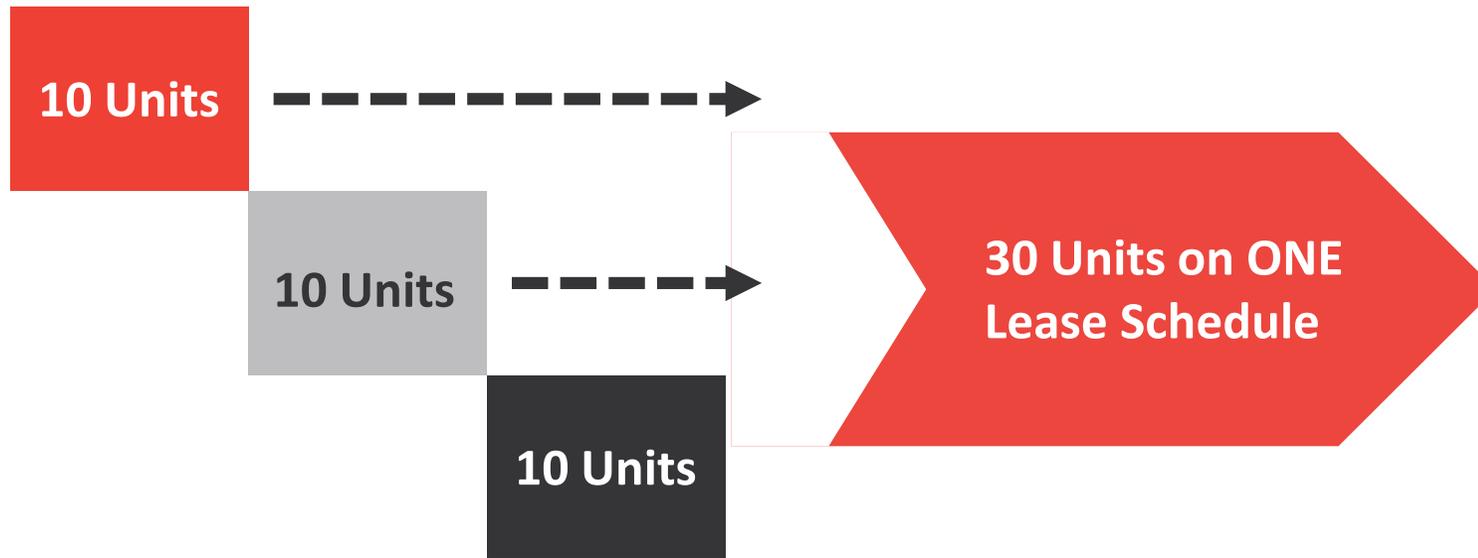
April, May & June 2014

Lease Start Date

July 1, 2014

Lease End Date

June 30, 2017



Important Results:

1. Reduces Paperwork
2. 1 Lease Schedule for Multiple Orders
3. Sets Up a Refresh Cycle

Identify Right of Use Assets



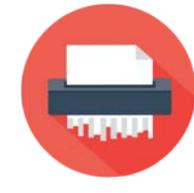
Contract Management



Asset management



Hard Costs vs Soft Costs



Data Wipe & Disposal Compliance

Disposal of Assets



* This is not a disposal program



FASB Changes – ASC 842

- No impact on debt limit covenants
- Leasing is still the lowest cost way to utilize rapidly depreciating equipment
- P&L
 - Operating Lease Expense = straight line rent expense
 - Operating Lease Liability is NOT debt
- Balance Sheet
 - Right of Use Assets, only the PV of the rents on the Balance Sheet
 - Must be able to identify rent for hardware vs. soft cost
 - Still partially off balance sheet — only the PV of rents is capitalized



FASB Changes – ASC 842

Key Ratio Comparison

	Current Operating	Future Operating (ASC 842)	Lessee Impact
ROE	17.29%	17.29%	↔
ROA	15.27%	14.46%	↓
Debt to Equity	11.32%	11.32%	↔
Total Liabilities	\$70,000	\$103,790	↑
EBITDA (Margin)	\$140,960 (19%)	\$140,960 (19%)	↔
Net Worth	\$530,000	\$530,000	↔

Note: Impact on Financial Statements (\$600,000 asset size, \$70,000 liabilities, and \$530,000 equity) of Operating Lease with the following terms:

- \$50,000 Equipment Cost
- 60 monthly payments of \$753.69 in arrears
- 20% (\$10,000) residual position taken by Lessor
- Yield 3.38%
- Risks and benefits not transferred – Operating Lease





Bonus Depreciation vs. Leasing

- Even with Bonus Depreciation, leasing is still the lowest cost way to utilize depreciating equipment
- This model does not include the company's internal cost of cash. This would only make leasing even more effective than cash.

	Buy	Lease
Equipment Cost	\$ 1,227,318.00	\$ 1,227,318.00
Tax Rate	0.26	0.26
Lease Term		48
Rent	0	\$ 24,465.00
Net Cost/Rent	\$ 908,215.32	\$ 18,104.10
Tax Benefit	\$ 319,102.68	
Residual Percentage	10%	\$ -
Residual Value	\$ 122,731.80	
PV of Potential Residual 5% 48 Months	\$ 100,526.06	
Potential Net Cash	\$ 807,689.26	
PV of Net Rents 4%		\$ 804,482.18
PV of Net Rents 8%		\$ 746,522.43

Tax Reform Lease vs. Buy (or finance)

■ Tax reform favors leasing — limits on interest expense, rent is fully deductible

- IRS Tax Rate drops from 35% to 21%
- **Interest Expense deduction capped at 30% of Adjustable taxable income**
- Lease Rent is fully deductible
- Deductibility cap causes favor for non interest bearing liabilities like a lease
- Operating leases will be on balance sheet but funded 100% by non interest (non debt) liability
- If interest is not fully deductible by a lessee, the cost of borrowing to buy increases significantly





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