Market Report 2013

LEASING EXTENDS ITS SHARE OF THE MARKET

Weak Investment Climate

The German economy recovered slowly in 2013. Investment activity picked up over the year, but not enough for sustainable growth throughout the year. Investments in equipment fell by 1.7 percent.

Leasing Gains Additional Market Shares

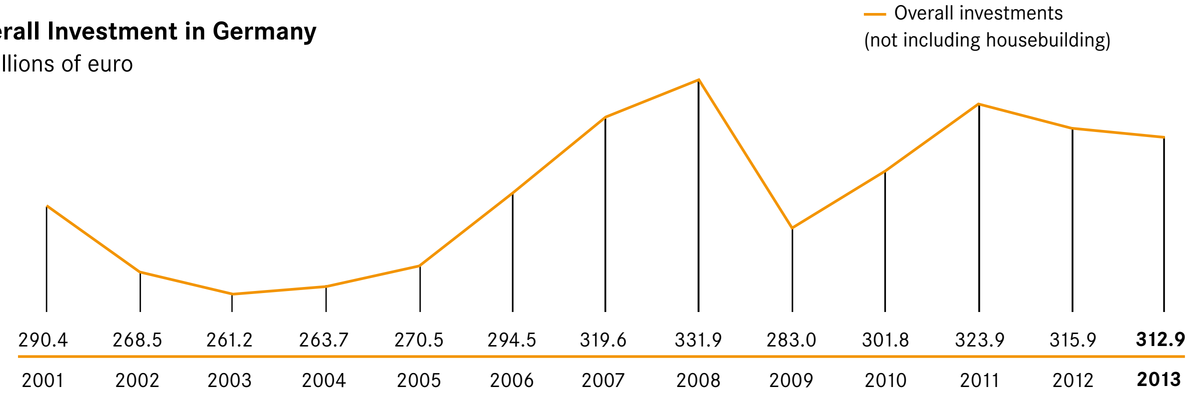
At a time when investment levels were falling, companies in Germany made above-average use of leasing agreements. Thus, the leasing sector's share of the equipment investment market rose to 23.1 percent.

The Overall Economic Picture

Following a weak final quarter in 2012, the Germany economy began to pick up in the second quarter of 2013. Economic activity increased in spite of problems in many of Germany's export markets: the eurozone remained mired in recession, crises were brewing in a number of emerging markets, and the economic engines in some of the major developing countries were also slowing down. Last year, growth was largely driven by domestic demand, though this was uneven. Whereas private- and state-sector consumption continued to expand, there was a renewed decline in capital goods investment. According to the Federal Statistics Office, Germany's gross domestic product increased nominally by 2.7 percent (by 0.4 percent in real terms).

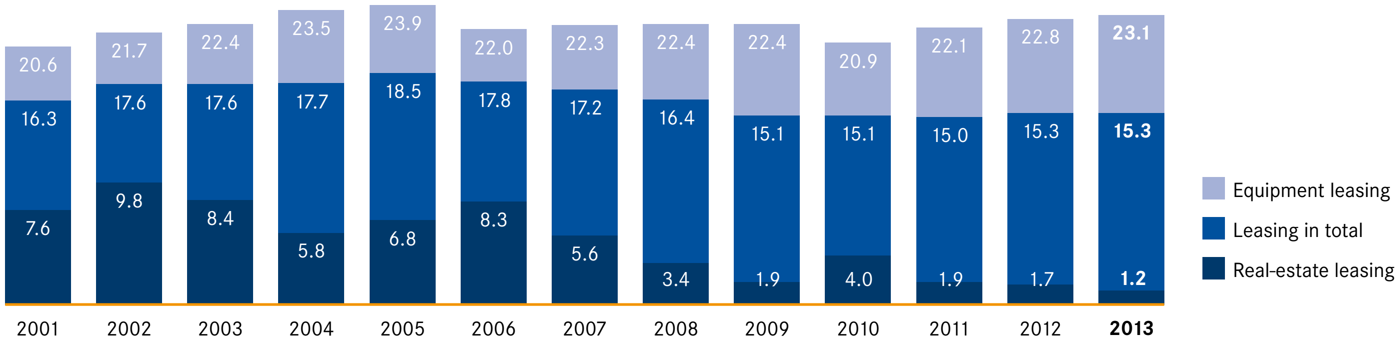
Investment activity continued to decline in the early part of 2013, but picked up over the course of the year. Projects that had been postponed in the preceding years on account of the uncertain situation in the eurozone were given the go-ahead by investors whose confidence had been lifted by fuller order books and higher capacity-utilization rates. However, over the entire year there was no growth in investment. Equipment investments (including investments in so-called Other Products) were down nominally by 1.7 percent compared with the preceding year. Building investment (not including homebuilding) grew nominally by 0.6 percent. Aggregate investment activity in Germany (not counting investments in residential construction) contracted in nominal terms by 0.9 percent.

Overall Investment in Germany
in billions of euro



Source: Ifo Institute for Economic Research, Federal Statistical Office (06/2014)

Penetration Rates
in percentages



Source: Ifo Institute for Economic Research, Federal Statistical Office (06/2014)

The Ifo Institute's Survey of the Overall Leasing Market in Germany

The leasing sector did not escape the decline in investment, though as far as investments in equipment were concerned, leasing companies performed better than their financing competitors and increased their share of the market. However, the leasing industry lost ground in the construction investment sector.

According to the Ifo Institute's survey of all the companies operating in the leasing sector, new business acquired in 2013 was 1.3 percent down on the figure for the preceding year. The volume of new investment financed by the leasing sector was 47.9 billion euro, as compared with 48.5 billion euro in 2012. The leasing industry's share of aggregate investment in Germany (i.e. the leasing penetration rate) remained stable at 15.3 percent.

The volume of equipment leasing remained more or less unchanged (down by just 0.2 percent) at 46.5 billion euro. Since there was a significant decline in investment in equipment in all economic sectors, the across-the-board leasing penetration rate went up from 22.8 percent in 2012 to 23.1 percent by the end of 2013. The leasing sector thus managed to up its share of the market for the third year in a row. The volume of business achieved in 2013 through real-estate leasing (i.e. through the leasing of non-residential buildings) fell by 27.2 percent to 1.4 billion euro. Year-on-year, the leasing penetration rate in the aggregate non-residential construction sector declined from 1.7 percent to 1.2 percent. The striking difference in the leasing penetration rates in the equipment sector and in the real-estate sector may be explained, first, by the fact that equipment is inherently more leasable, and, second, by differences in the competitive structures in the two respective market environments.

While leasing has established itself as a tool for the financing of equipment, it is rarely used to finance building projects – for a variety of legal, fiscal and commercial reasons. Furthermore, other forms of structured financing have in recent years gained considerable ground in the real-estate sector.

Member Companies of the BDL

The 180 or so member companies of the BDL generate approximately 90 percent of the value of the German leasing market as

Leasing Market 2013 at a Glance

Leasing Investment:
47.9 billion euros

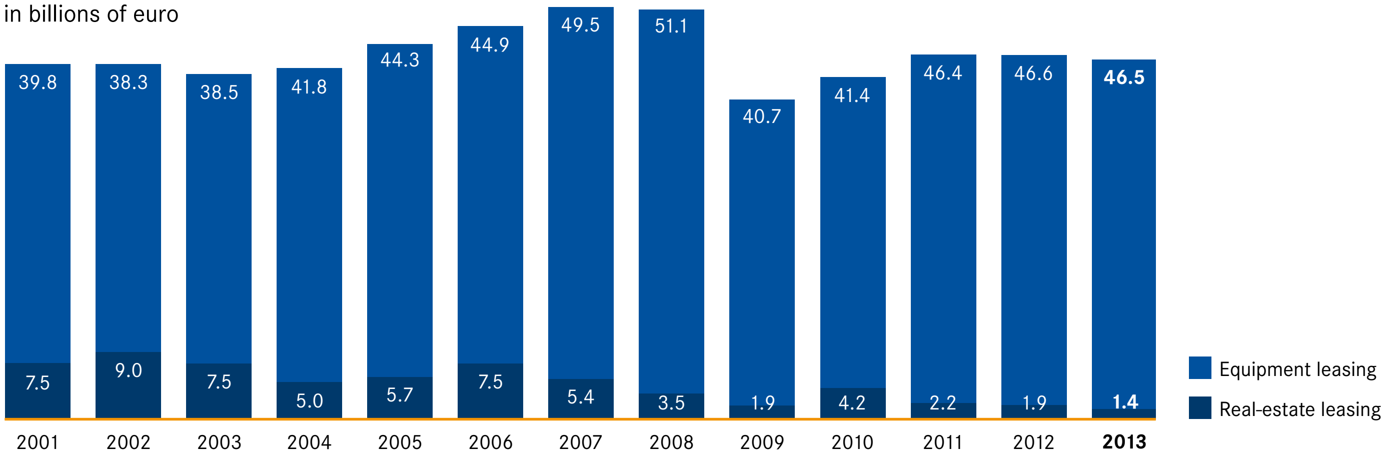
Penetration Rate:
15.3 percent

Penetration Rate Equipment:
23.1 percent

Contracts:
1.7 million

Share of External Financing:
52 percent

Leasing Investment
in billions of euro



Source: Ifo Institute for Economic Research, Federal Statistical Office (06/2014)

The German leasing market is dominated by road vehicles. In 2013 the number of new commercial-vehicle and car registrations fell. The leasing sector felt the pinch, but still managed to increase its share of the market as leasing became an increasingly popular way of financing a new vehicle.

measured by the Ifo Institute. Data on their leasing activities are included in the Ifo Institute's statistics. The BDL also conducts its own independent annual survey of the business performances of its members as recorded in their balance sheets. The BDL's survey delivers more detailed information about the business transacted by its member companies. It takes account of hire-purchase contracts as well as leasing agreements, whereas the Ifo Institute's survey deals only with leasing.

The BDL's member companies acquired 45.3 billion euro's worth of new equipment business in 2013, which was only very slightly down (by 0.3 percent) on the figure for 2012. (Included in this figure is the 5.6 billion euro's worth of new business acquired last year through hire-purchase agreements.) New real-estate leasing business fell by 24.7 percent to 1.4 billion euro. The real-estate sector tends to be dominated by small numbers of large-scale transactions, and measured in terms of the number of new leasing agreements concluded, the downturn in real-estate business last year was less pronounced (-16.5 percent).

In 2013, the ownership backgrounds of the various leasing companies continued to play a determining role in their performance over the year. The amount of new business acquired by bank-owned leasing companies fell (by 2 percent), while companies with close ties to manufacturers (the captives) and the independents recorded an increase in new business (by 1 percent and 2 percent, respectively).

Road Vehicles Continue to Dominate

Road vehicles were once again the most important type of leased asset. Cars & Estate Vehicles (54 percent) together with Buses, Transporters, Trailers & Trucks (16 percent) accounted for the lion's share (70 percent) of all new equipment leased in 2013. The second-largest category of capital goods in the equipment-leasing sector was Production Machinery (13 percent). In third place came Office Equipment & IT Systems (8 percent), followed by so-called Other Products (6 percent). In joint last place came Aircraft, Watercraft & Rail Vehicles, Medical Technology and Intangible Assets, each of which accounted for 1 percent of all new business. In broad terms, these rankings remained virtually the same as in 2012. However, there were differences in the rates at which demand for the various categories of asset grew or contracted.

Developments in the Demand for Individual Asset Groups

There was significant growth in 2013 in the following asset groups: Intangible Assets (+ 47 percent), Office Equipment & IT systems (+ 11 percent), and Other Products (+ 10 percent). Demand for Production Machinery reached the level of the preceding year. In the following assets groups there was a contraction in demand: Aircraft, Watercraft & Rail Vehicles (- 62 percent), Buses, Transporters, Trailers & Trucks (- 1 percent), Medical Technology (- 1 percent), and Cars & Estate Vehicles (- 1 percent).

Gains in Market Shares

As noted above, road vehicles again constituted the largest group of leasable investment assets. Measured in terms of acquisition costs, the leasing penetration rate in the road-vehicle sector last year stood at 65 percent. The sharp drop in the overall number of new vehicle registrations did not leave the leasing sector unscathed. Even so, it managed to increase its share of the vehicle-financing market. German companies may have acquired fewer vehicles, but they made more frequent use of leasing as a vehicle-financing tool. So while the overall number of new car registrations fell by 4.2 percent, the number of newly leased cars was down by just 1.6 percent. As a result, the car-leasing penetration rate measured in terms of vehicle numbers rose to 36 percent.

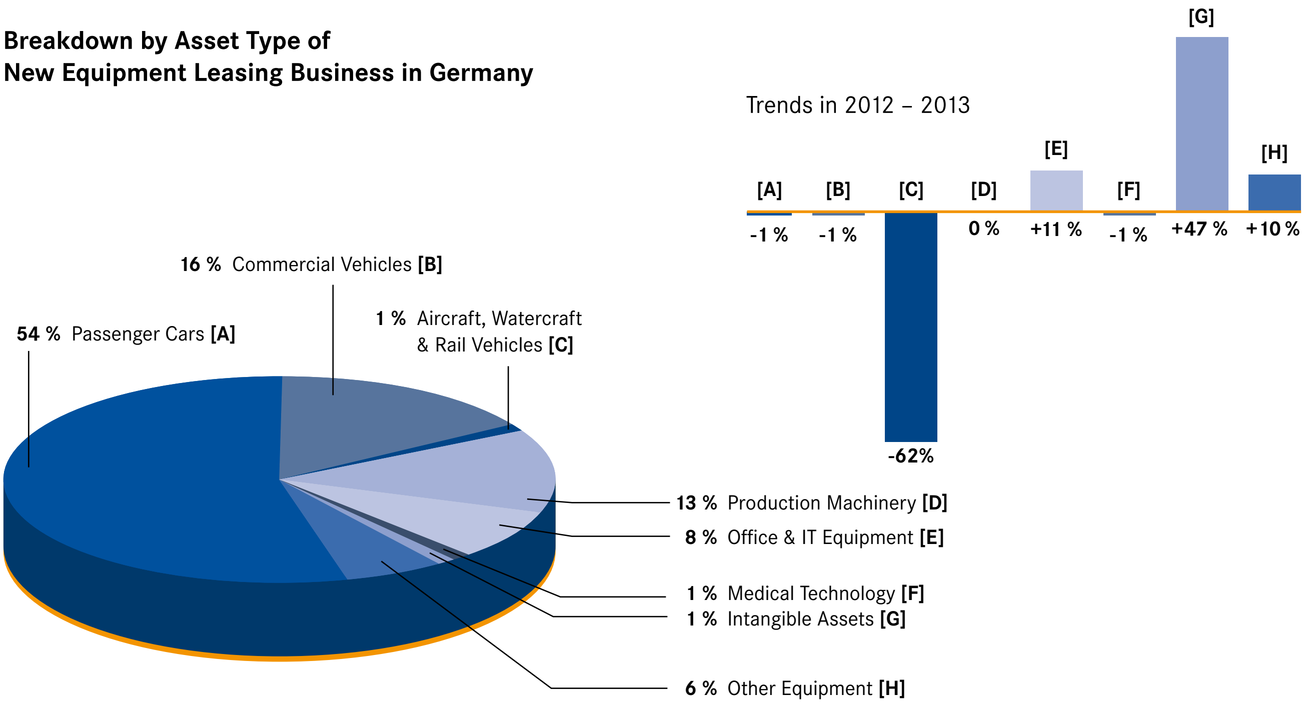
The car leasing segment profited in 2013 from the relatively high percentage of motorists using company cars. Although just 62 percent of all new cars coming onto the roads were registered as company cars, some 80 percent of these were leased. And new company car registrations fell less sharply than the number of new cars registered by private motorists.

Gains in market share were also made in the Commercial Vehicles asset group. Although there was a 1 percent drop in the number of new commercial vehicles leased, the overall drop in the number of new commercial-vehicle registrations was 2 percent, which means that further inroads into the market were made in this segment as well. The figures for new commercial-vehicle registrations are a reliable indicator of the overall state of a national economy. A drop in the number of new vehicles being registered is generally a sign of falling demand, lower levels of production, and, in consequence, of a reduced requirement for means of transport.

After Road Vehicles, the next most important asset category for the leasing industry is Production Machinery. New business acquired through the leasing of production machinery remained at the same level as in 2012. The leasing penetration rate in this sector showed a slight year-on-year increase and ended up at around 8 percent.

Office Equipment & IT Systems constitute the third-largest group of leasable assets. Compared with 2012, the penetration rate rose by one percentage point to 14 percent. At the beginning of the 1980s, the penetration rate for Office Equipment & IT Systems was still

Breakdown by Asset Type of New Equipment Leasing Business in Germany



Source: BDL

around the 50 percent mark, but thereafter declined sharply before eventually stabilizing in recent years at a significantly lower level. Technical developments continue to dictate the pace of business in this sector. Hardware has become more efficient and less expensive, and companies are spending increasingly large portions of their budgets on software. For the leasing industry, this has meant concentrating on the supply of smaller equipment packages at competitive rates, and offering separate software-leasing agreements.

There was a sharp fall in the volume of new leasing business acquired in the Aircraft, Watercraft & Rail Vehicles sector in 2013. This area of the leasing market tends to be dominated by small numbers of big-ticket transactions, and the downturn in 2013 was no more than a follow-on from the higher-than-average rate of growth in 2012, when there was a 20 percent jump in the volume of new business acquired.

Investments in Medical Technology still account for only a very small fraction of all new leasing business. The volume of new business acquired in 2013 totalled 0.5 billion euro, which was 1 percent less than in the preceding year. The leasing penetration rate in the health-care sector remains low, which means that considerable growth potential for the leasing industry continues to exist in hospitals, medical centres and specialist practices. In the field of medicine, keeping up with the latest technological developments is essential, and it is to be hoped that health practitioners will eventually come to recognize the advantages leasing can offer.
Intangible Assets, which covers software, patents and brands, has always been a low-volume sector, and last year was no exception. The problem with assessing developments in this niche market is that the amount of new business acquired in any given year tends to be largely determined by a small number of high-value transactions.

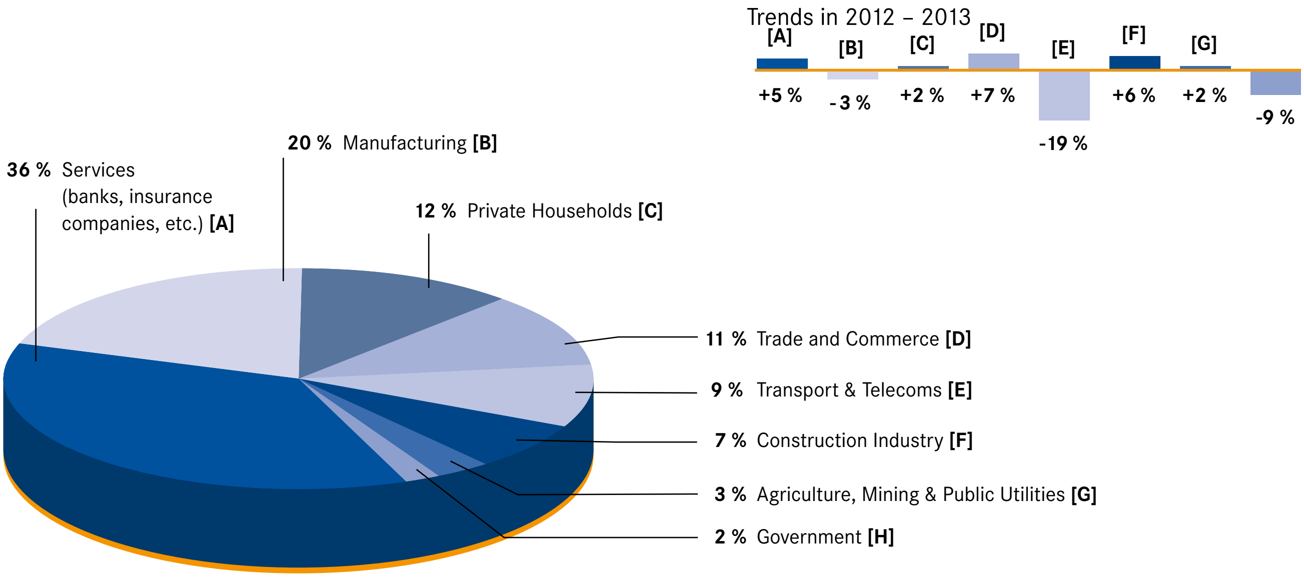
Other Products is a hold-all category for items that do not fit in any of the other asset groups. Examples of such products are information and signalling systems, electrical equipment, optical goods and shop fittings.

Services Sector Still the Top Customer

Demand for leased equipment in 2013 increased in the Services sector (+ 5 percent), in the Trade & Commerce sector (+ 7 percent), in the Construction Industry (+ 6 percent), in the Agriculture, Mining & Public Utilities sector (+ 2 percent), and in Private Households (+ 2 percent). Negative growth was recorded for the following customer groups: Transport & Telecoms (- 19 percent), Public Authorities (- 9 percent), and Manufacturing (- 3 percent). These trends were in line with the aggregate investment patterns observed in 2013.

Since the mid-1990s, German service companies have been the powerhouse of the nation-

Breakdown by Customer Type of New Equipment Leasing Business in Germany



Source: BDL

al economy, and Services generates more equipment-leasing business than any other customer group. In 2013, this sector accounted for 36 percent of all new business transacted, which was more than in 2012. This heterogeneous sector includes credit institutes, insurance companies, the hospitality industry, business consultancies and IT service providers. The leasing penetration rate in Services remains below average (12 percent), which means it continues to offer potential for growth. Cars and office equipment (including IT systems) are the commodities most frequently leased by service companies. Demand from manufacturing companies, the equipment leasing industry's second most important customer group, remained stable in 2013, and once again accounted for 20 percent of all new business transacted. The leasing penetration rate in Manufacturing (16 percent) remained slightly higher than the across-the-board average.

Private Households were the equipment-leasing sector's third most important customer group in 2013. They generated 12 percent of all new equipment-leasing business transacted, which was a little more than in the preceding year. Cars and estate vehicles remained the most sought-after items and accounted for over 90 percent of the value of new contracts concluded with this customer group. The leasing of cars and estate vehicles is very much in the hands of captive leasing companies. Since the mid-1980s they have been successfully targeting Private Households with innovative leasing agreements accompanied by attractive supplementary service packages.

36 percent of all new equipment-leasing agreements are concluded with service companies. 2013 brought a year-on-year increase of around 5 percent in new business transacted with the Services sector. With a leasing penetration rate of just 12 percent, this sector still offers potential for growth.

Trade & Commerce provided 11 percent of all new business transacted and came fourth in the customer rankings. The leasing penetration rate in this sector stands at 29 percent, which is relatively high. If 2012 was characterized by a general reluctance to invest, 2013 was a year of healthy consumer demand. Encouraged by this development, trading and commercial companies last year began to invest again and made corresponding use of the leasing sector's services.

Transport & Telecoms Sensitive to Economic Ups and Downs

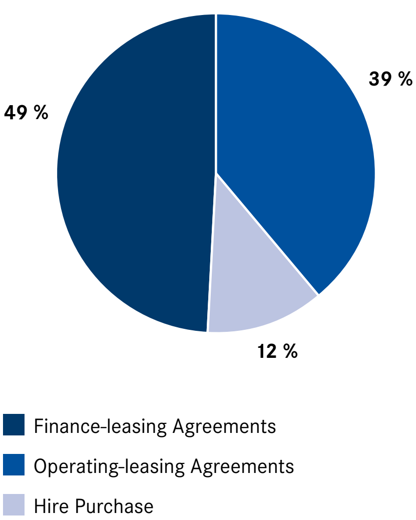
There was a marked contraction in the volume of business transacted with the Transport & Telecoms sector, which slipped to fifth place in the customer-group rankings. It accounted for just 9 percent of all new business, which was one percentage point less than in 2012. This sector is particularly sensitive to changes in economic conditions, and, like Manufacturing, was hit hard by the overall downturn in investment activity.

The Construction Industry finished the year in sixth place in the rankings. As in 2012, it accounted for 7 percent of all new leasing business. The leasing penetration rate in this sector (61 percent at the end of 2012) has been very high for a number of years, and construction companies' willingness to lease equipment has of late been strengthened by healthy levels of demand for new residential buildings.

The Agriculture, Mining & Public Utilities sector again contributed 3 percent of all new business transacted, and came seventh in the customer rankings in 2013. Agricultural and forestry equipment were the types of asset most frequently leased to this customer group.

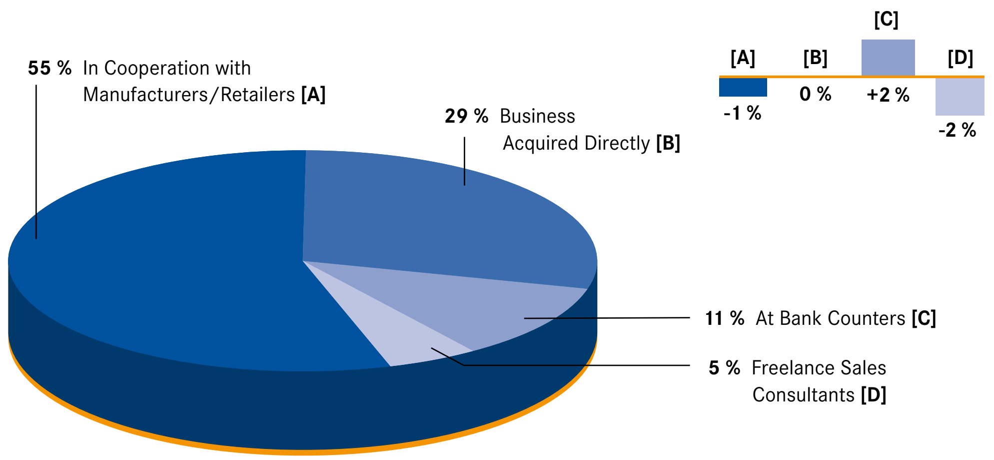
In eighth and final place came Public Authorities. There was a sharp drop in the leasing of investment assets by state-run bodies, and they contributed a mere 2 percent of all new leasing business acquired in 2013. Only a very small portion of their overall investment in equipment (5 percent) came through leasing. However, the leasing penetration rate in this customer group would be significantly higher if the assets leased by state-owned enterprises, state-funded research institutes and charitable organizations were taken into account alongside the leasing business transacted

Breakdown by Agreement Type of New Equipment Leasing Business in Germany



Channels for the Acquisition of New Equipment-Leasing Business in Germany

Trends in 2012 – 2013



Source: BDL

with regional authorities and social services (i.e. with public authorities in the narrow sense of the term).

Types of Equipment-Leasing Agreement

The number of new equipment-leasing agreements concluded in 2013 rose to 1.4 million, which was less than 1 percent more than in 2012. However, the average value of a new agreement in 2013 was 32,500 euro, which represented a nominal year-on-year fall in value of half a percent.

The total value of new equipment procured by the member companies of the BDL in 2013 (45.3 billion euro) remained much the same as in 2013 (down by no more than 0.3 percent). In terms of value, 87 percent of this equipment (i.e. 39.7 billion euro's worth) was leased, while the remaining 12 percent (worth 5.6 billion euro) was supplied on hire purchase. Compared with 2012, the volume of hire purchase business fell by 1.0 percent. This rate of decline was higher than for leasing, which contracted by just -0.2 percent.

Leaving aside hire-purchase agreements, it can be said that over half of all German leasing business (56 percent) was transacted in accordance with the so-called Leasing-Erlasse. These are the legal guidelines that govern all medium- and long-term agreements whose basic lifetimes are shorter than the ordinary useful life of the items being leased (in other words, leasing agreements in their "classical" form). Items leased under the terms of such agreements are generally amortized in full by the lessee.

The remaining 44 percent of leasing business transacted in Germany last year was acquired through operating leasing agreements. With this type of agreement, the financial/investment risk is borne by the lessor, for the leasing company can only recover the residual value of the asset it has leased out by selling it on after the agreement expires or by persuading the original lessee (or a subsequent assignee) to sign up to a new leasing agreement. Operating leasing agreements have become the standard instrument for the leasing of IT equipment and motor cars, particularly when service components form part of the package on offer.

Equipment-Leasing Sales Channels

Leasing companies reach their customers in a variety of ways:

• Manufacturers and dealers play a central role in the acquisition of most new business. In manufacturer leasing, manufacturers offer the customer leasing facilities either through their own subsidiary leasing companies or through a captive leasing partner. A variant of this approach is so-called vendor leasing, where the manufacturer relies on a dealer to set up contact between the customer and the leasing company. The volume of business acquired in this way in 2013 fell by 1 percent; the share of leased-equipment business acquired through vendors came to around 55 percent.

• In direct selling, the leasing companies' own sales teams establish direct contact with the customer. The volume of business acquired by such teams in 2013 was the same as in the preceding year and accounted for 29 percent of the volume of all new business transacted.

• Leasing facilities are frequently offered by banks as an alternative to normal bank loans. New business generated at bank counters last year increased by 2 percent. Some 11 percent of all new leasing business was acquired through this channel.

• Freelance sales consultants find customers, negotiate leasing agreements with them, and then call in the leasing company. Freelancers last year acquired 2 percent less business than in 2012; their share of the market stood at around 5 percent.

• In e-commerce, potential customers bypass vendors and sales consultants by seeking out companies' internet portals for themselves. In theory, the internet offers an efficient medium for the marketing of small-ticket items. But it has yet to make any real impact in the marketplace, and the volume of business transacted online in 2013 was at much the same low level as in the preceding year. Internet transactions still account for less than 1 percent of the value of all equipment leased in Germany and are therefore not represented in the graphic.

International Leasing Business

Foreign leasing business can be conducted by means of cross-border agreements or in the form of operations directed by leasing providers based in the country in question (domestic leasing). German leasing companies started to grow their foreign businesses in the early eighties by means of cross-border leasing. In this type of operation, the leasing agreement is concluded directly between the German leasing company and the foreign lessee. In domestic leasing, the agreement is concluded between a local subsidiary of the German parent leasing company and the foreign lessee. The setting up of foreign subsidiaries with local expertise offers a number of clear advantages: on-the-ground representation increases service efficiency and also makes it easier to assess customers' creditworthiness, the state of the local financial markets, and the demand that exists for specific types of goods.

German leasing companies operating abroad once again suffered under the difficult economic conditions prevailing in various foreign marketplaces. And although the volume of cross-border leasing transactions increased in 2013 by 27 percent, the total value of business acquired was fairly modest (0.2 billion euro). Domestic leasing in foreign markets contracted dramatically (by 21 percent), and generated no more than 2.8 billion euro's worth of new business. Cross-border leasing is characterized by small numbers of high-value transactions, whereas standardized transactions tend to predominate in domestic leasing. Domestic leasing operations outside Germany are not covered separately in the statistics compiled by the BDL about its members' acquisition of new business. Instead, they are included in the investment volumes calculated for the respective foreign countries. Around a third of the member companies of the BDL were active in foreign markets in 2013.

The Outlook for 2014

In its latest economic forecast (for 2014/2015), the Ifo Institute predicts that strong domestic demand will carry forward the German recovery. It expects private consumption to grow in line with improvements in real income. Now that the global economy is gathering pace, the Ifo Institute expects there to be a modest improvement in Germany's export performance. When order books are well filled and capacity-utilization rates are high, investment in equipment increases. So in the current year, the Ifo Institute expects Germany's gross domestic product to grow at a nominal rate of 3.8 percent (or by 2.0 percent in real terms). The Ifo Institute forecasts that investments in Equipment and Other Products will rise in nominal terms by 6.9 percent and investments in Non-Residential Buildings by 5.3 percent. What impact the Russia-conflict will have on Germany's economic development and on the investment climate is not foreseeable.

It can be assumed that the volume of new business acquired by the leasing sector will remain in line with the macroeconomic trend, for as, regards the realization of investment projects, the share of the financing market enjoyed by leasing companies has remained fairly constant in the past. According to the BDL's Trend Report for the first half of 2014, the volume of new equipment leased out or supplied on hire purchase in the first six months of this year was about 10 percent up on the same period in 2013. The leasing industry expects new business to continue to pick up in the coming quarters, and to remain in line with – or even outpace – the growth rate of investment in equipment.