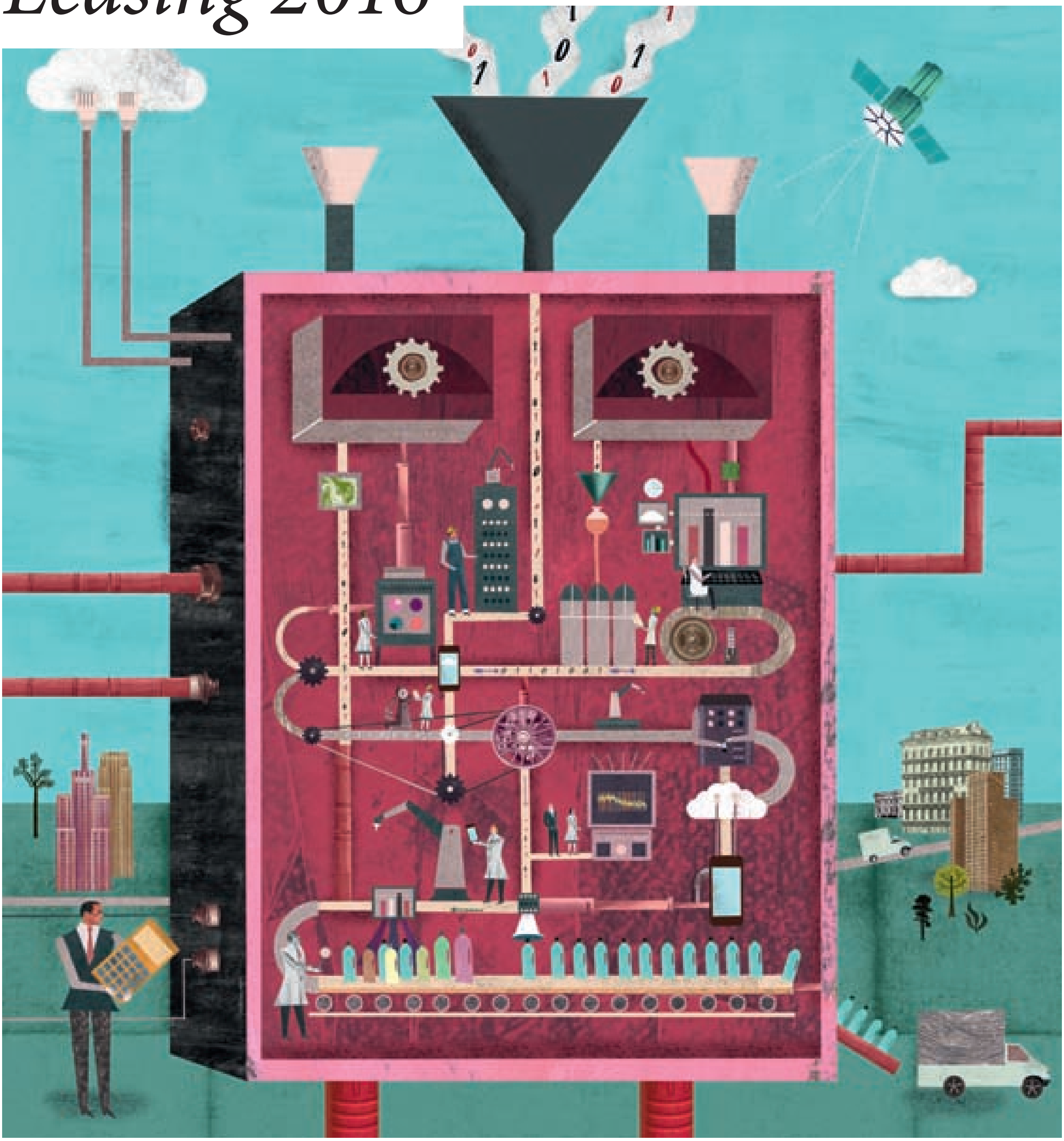
REPORT

BDL ANNUAL REPORT
– EXCERPT –

FACTS AND FIGURES ON THE GERMAN
LEASING MARKET 2015

BUNDESVERBAND DEUTSCHER
LEASING-UNTERNEHMEN

Leasing 2016



Market Report Germany 2015

NEW LEASING BUSINESS AT JUST UNDER 60 BILLION EURO

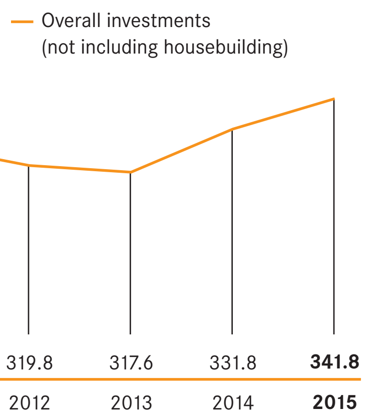
The prevailing mood in German companies is manifesting itself in a disinclination to invest. Investment in equipment in the non-state sector has been falling since the second quarter.

The Overall Economic Picture

The upturn in the German economy that began in 2013 continued into 2015, even though growth in the third and fourth quarters was slower than in the first six months. Nevertheless, GDP for the entire year was up by 3.8 percent (or by 1.7 percent after price adjustment).

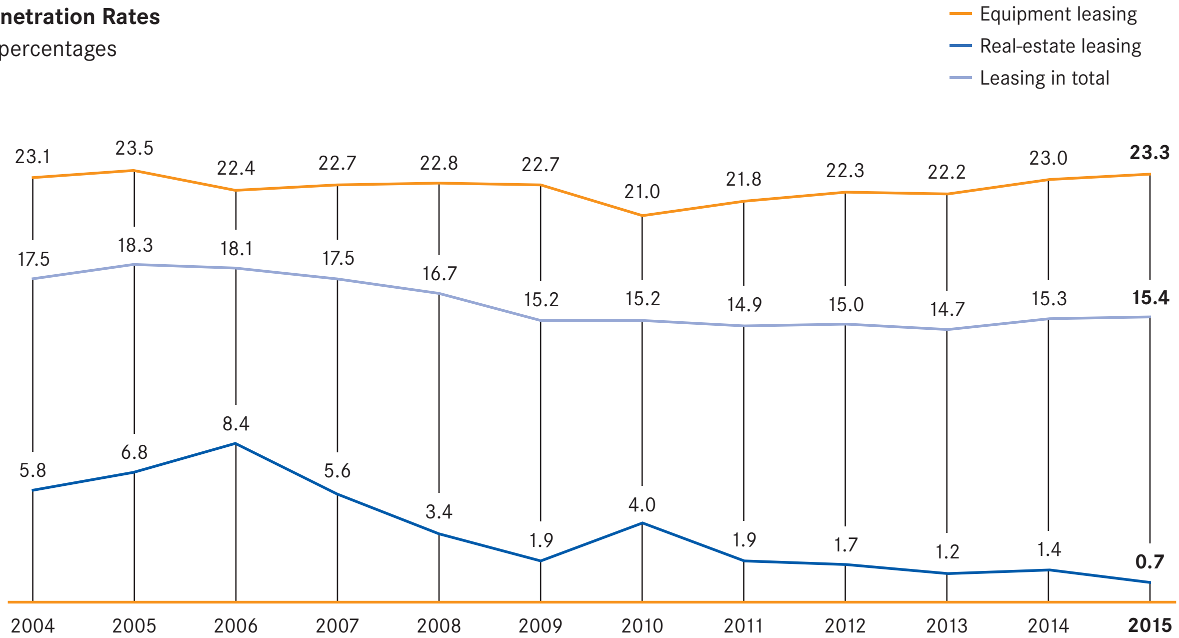
As in 2014, growth was largely driven by domestic demand. In particular, there was an increase in private consumption, and demand in the state sector rose as well. The growth in consumption was buoyed by expansionary fiscal policies, falling interest rates and rises in disposable income as a result of sinking oil prices. And in spite of the difficult economic conditions beyond Germany's borders, German exports grew by a remarkable 6.5 percent. But although companies profited from the fall in the value of the euro, the lack of positive developments in the eurozone and the USA coupled with a decline in demand for German goods in the emerging economies dampened the dynamism of the export sector after the middle of the year, and in the fourth quarter there was even a slight fall in exports. Notwithstanding these robust economic framework data and unusually favourable financing conditions, activity in the investment sector, such as it was, reflected the less-than-euphoric mood prevalent among German companies. Investment in equipment outside of the state sector has been in decline since the second quarter of 2015. It is widely believed this is because of developments in markets outside Germany. Overall investment in capital goods grew at a nominal rate of 3.6 in 2015,

Overall Investment in Germany
in billions of euro



Source: Ifo Institute for Economic Research, Federal Statistical Office (06/2016)

Penetration Rates
in percentages



Source: Ifo Institute for Economic Research, Federal Statistical Office, BDL (06/2016)

and investment in equipment by 5.3 percent. Building investment (not including housing) remained at the level of the preceding year.

Overall State of the German Leasing Market

In 2015, the leasing sector punched above its weight in its contribution to investment activity. The member companies of the BDL acquired 46.8 billion euro's worth of new business last year, which was 4.7 percent more than in the preceding year. On top of this came the new business worth around 6 billion euro acquired by leasing companies not affiliated with the BDL. The total volume of new business acquired in 2015 came to 52.8 billion euro (as compared with 50.2 billion euro in the preceding year. A number of leasing companies offer their customers hire-purchase agreements as a financing alternative, and the volume of new business acquired in this way stood at 6.8 billion euro. In all, 59.6 billion euro's worth of new business was acquired by the leasing sector in 2015, which was 5.1 percent more than in 2014.

In 2015, the across-the-board volume of equipment investment accounted for by leasing (i.e. the leasing penetration rate) was 15.4 percent (up from 15.3 percent in 2014).

The volume of equipment leasing achieved in 2015 was 51.9 billion euro, which was 6.8 percent more than in 2014, and the leasing of equipment grew at a significantly faster rate than overall investment in equipment. The proportion of overall investment in equipment accounted for by leasing was 23.3 percent, whereas in the preceding year the penetration rate was 23.0 percent. But real-estate leasing (i.e. the leasing of non-residential buildings) fell to just 0.9 billion euro in 2015, which was hardly more than half of the volume achieved in 2014.

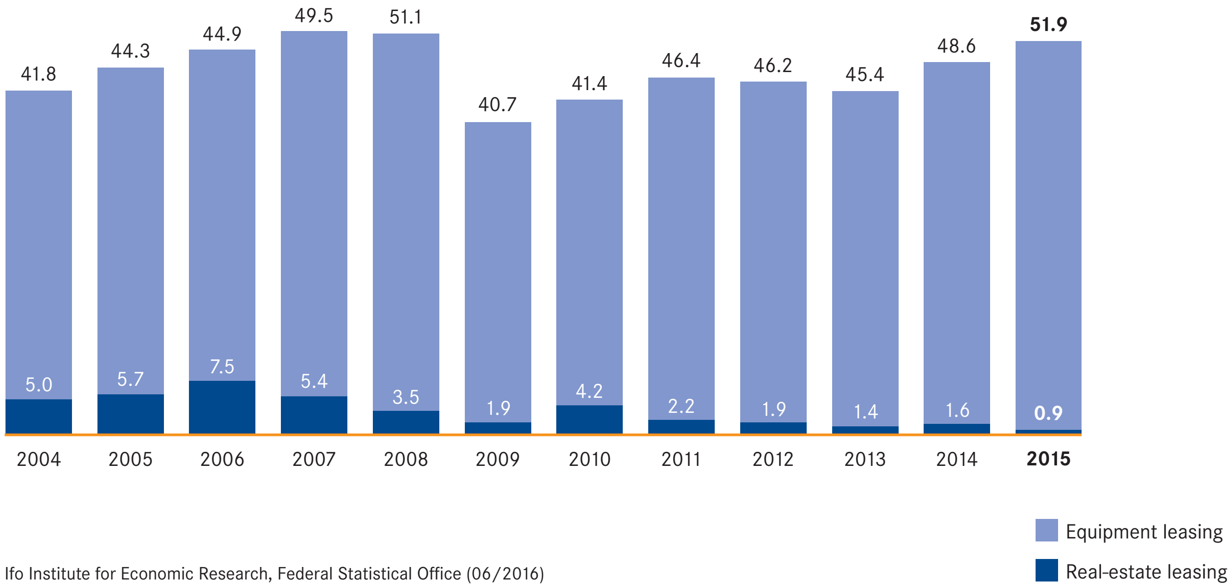
Member Companies of the BDL

The member companies of the BDL generate approximately 90 percent of the value of all new leasing business transacted in Germany. In its annual survey, the BDL collects detailed information about the new business acquired by its member companies as recorded in their balance sheets. In the equipment segment, the BDL survey (unlike the survey conducted by the Ifo Institute) covers hire-purchase agreements as well as leasing activity.

The BDL survey showed that its members acquired 52.7 billion euro's worth of new business in the *Equipment* segment, which was 7.7 percent more than in the preceding year. Of this, 6.8 billion euro was obtained through new hire-purchase agreements (up 13.3 percent on the figure for 2014). Most new real-estate leasing business comes through high-value transactions, and is therefore subject to considerable year-on-year fluctuation. Compared with 2014, new business transacted in this segment fell by 43.8 percent to just under 900 million euro. The number of real-estate leasing agreements concluded in 2015 also fell (by 11.8 percent).

Depending on their ownership backgrounds, leasing companies in 2015 performed with varying degrees of success. Bank-owned leasing companies saw a 7.9

Leasing Investment
in billions of euro



Source: Ifo Institute for Economic Research, Federal Statistical Office (06/2016)

percent increase in their new business, and captives increased theirs by 9.0 percent. But the independents made little headway, attracting just 0.3 percent more business than in 2014.

Road Vehicles Remain the Most Leased Asset Category

In terms of the types of asset being leased, the overall market structure has remained fairly stable in recent years, and in 2015 road vehicles once again constituted the largest market segment. *Cars & Estate Vehicles* (55 percent) together with *Buses, Transporters, Trailers & Trucks* (16 percent) accounted for the lion's share of all new equipment leasing. The second-largest category of equipment leased was *Production Machinery*. Next came *Office Equipment & IT Systems* and so-called *Other Products* (both with 6 percent), and then *Intangible Assets* (software, patents, trademarks) with just under 2 percent. In joint last place came *Aircraft, Watercraft & Rail Vehicles* and *Medical Technology*, each of which accounted for 1 percent of the value of all new equipment leased.

Levels of Demand for the Various Types of Leasable Assets

The levels of demand for the various types of assets varied. In 2015, demand for *Intangible Assets* grew at the strongest rate (albeit from a very small base), with new business in this segment up by 22.2 percent. Captives profited most from this increase (+67.2 percent), but the independents also put in a strong performance (+30.5 percent). New *Cars and Estate Vehicles* business grew by 10.0 percent, and demand for *Buses, Transporters, Trailers and Trucks* rose by 11.5 percent. These rates of increase were comparable with those for the preceding year. The subsidiary leasing companies of the automobile manufacturers have long been the main beneficiaries of the demand for cars and estate vehicles. Their dynamism in 2015 was rewarded with an 8.3 percent increase in new business. In the *Commercial Vehicles* segment, the manufacturers put in a slightly below-average performance and only managed to increase their new business by 9.9 percent. The growth of 8.6 percent seen in the *Production Machinery* segment was for the most part generated by bank-owned leasing companies. New business in the *Office Equipment & IT Systems* segment failed to

> About one in three newly registered cars in Germany is a leased vehicle. And since medium-sized and luxury cars are the most leased types of vehicle, the leasing penetration rate as measured in terms of acquisition costs is a very healthy 68 percent.

pick up following the decline in demand seen in 2014, and the same can be said of *Medical Technology*. In the past, the leasing of *Aircraft, Watercraft & Rail Vehicles* has tended to be just as volatile as the leasing of real estate. In 2015, new business acquired in this segment was just half of the remarkably high volume achieved in the preceding year. This fluctuation is attributable on the one hand to the nature of the customer base, and on the other to the disproportionate effect of small numbers of high-value transactions on the statistics.

Road Vehicles are the most important type of leasable asset. Measured in terms of acquisition costs, the leasing penetration rate in this segment was 68 percent. 38 percent of all newly registered cars in Germany are leased vehicles. The increase in the number of new leased cars (+6.0 percent) more than kept up with the overall increase in the number of new car registrations (+5.6 percent). Most leased vehicles are used for business purposes; in 2015, 80 percent of all newly leased cars were company cars. However, just 65 percent of all new cars on the roads were registered in the names of commercial owners.

The number of commercial vehicles leased in 2015 was 11.7 percent higher than in the preceding year. New commercial vehicle registrations overall were up by just 4.3 percent.

Production Machinery is the next most important asset type for the leasing industry after *Road Vehicles*. The increase in new business acquired through the leasing of production machinery was greater than the overall growth of investment in machines. The penetration rate in this sector increased to around 9 percent, which was slightly higher than in 2014.

The German Leasing Market in 2015

Investments made through leasing:
52.8 billion euro (+5,2 %)

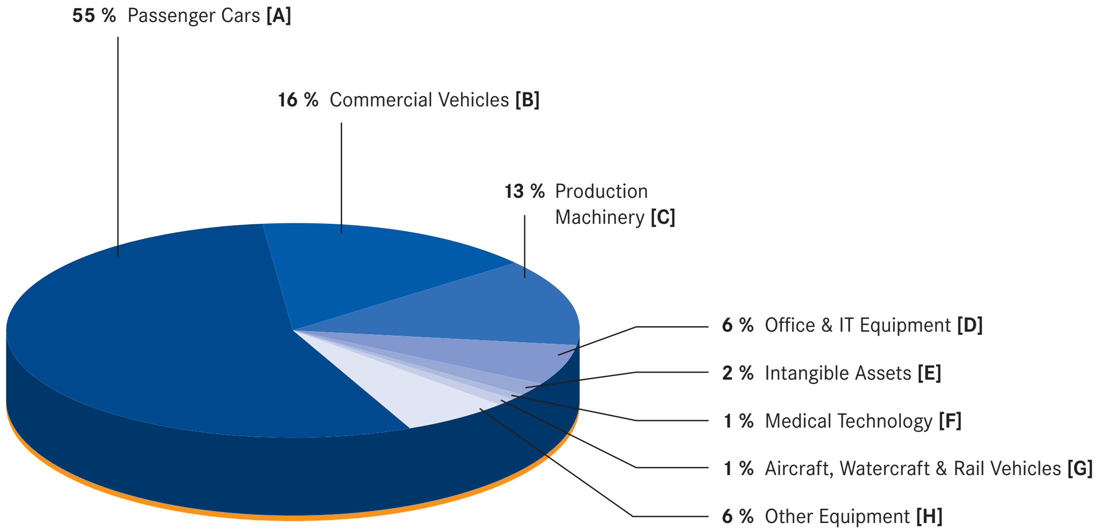
Equipment leasing:
51.9 billion euro (+6,8 %)

Leasing penetration rate in the equipment sector:
23.3 %

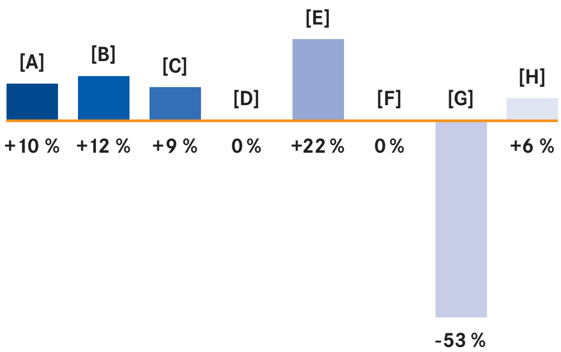
Number of leasing agreements concluded:
1.8 million

Percentage of externally financed investments made through leasing:
52 %

Breakdown by Asset Type of New Equipment Leasing Business in Germany



Trends in 2014–2015



Source: BDL

The leasing penetration rate in the *Office Equipment & IT Systems* segment, which constitutes the third-largest group of leasable assets, was slightly down at 12 percent. This rate was still at around the 50 percent mark in the early 1980s, but it then fell sharply before finally settling over the course of the 1990s at a level that has remained more or less constant ever since. Leasing companies have reacted to the availability of ever more efficient hardware, falling prices per unit of computing capacity and the increasingly high cost of software licenses and services in relation to overall IT investments by offering even the smallest packages of equipment at efficient and competitive rates, by developing special software-leasing agreements and by providing supplementary service packages.

Medical Technology still accounts for only a very small fraction of all new leasing business. In 2015, the value of new business acquired in this segment remained unchanged at 0.5 billion euro. Given the rapid pace of innovation in health-care technology, and the comparatively low leasing penetration rate in the health-care sector, it seems fair to say that there is still plenty of untapped potential in the *Medical Technology* segment. In the fields of medicine and health care, keeping up with the latest technological developments is essential, so hospitals, health centers and specialist practices may yet come to recognize the advantages of leasing. Nor should it be forgotten that it is possible to encourage the utilization of technologies by providing related supplementary services.

Services Sector Still the Top Customer

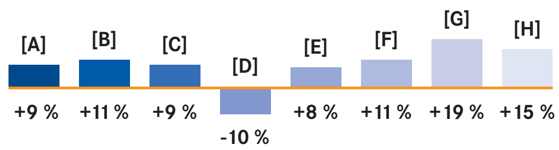
In 2015, new business increased in all of the leasing customer groups apart from T*ransport & Telecoms*, which failed to match its growth rate of the preceding year. The most impressive rates of growth were achieved in the primary sector *(Agriculture, Mining & Public Utilities)*, which was up 18.5 percent, and in the *Public Sector* (up 14.5 percent).

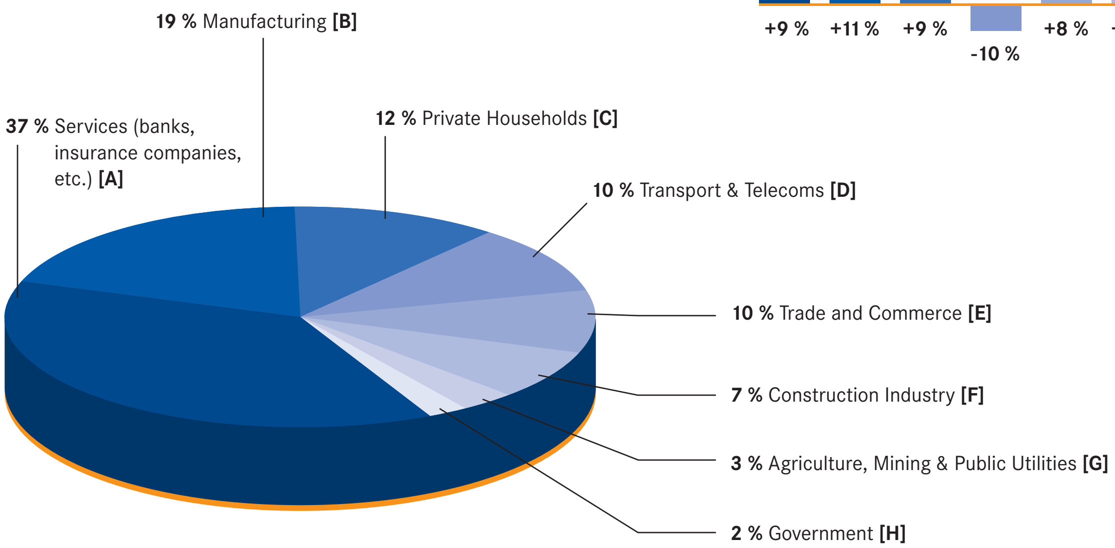
Since the mid-1990s, the *Services Sector* has served as the engine room of the German economy, and it is by far the German leasing industry's most important source of business. This heterogeneous sector includes credit institutes, insurance companies, hotels and the hospitality industry, consultancy firms and IT service providers. Cars and office equipment (including IT systems) are the types of assets most frequently leased by service companies. As in 2014, business transacted with the *Services Sector* accounted for around 37 percent of the value of the leasing market. New business was up by 8.5 percent, which was a higher rate of growth than in the investment market overall. The leasing penetration rate in the *Services Sector* is 13 percent, so there clearly remains plenty of potential here for growth.

Demand from *Manufacturing Companies*, the equipment leasing industry's second most important customer group, increased by 11.3 percent. The share of this segment remained stable, and as in 2014,

Breakdown by Customer Type of
New Equipment Leasing Business in Germany

Trends in 2014–2015





Source: BDL

accounted for 19 percent of all leasing investments. The leasing penetration rate in this sector (16 percent) was slightly above the average calculated for all the sectors served by the leasing industry.

penetration rate is a healthy 25 percent, which is well above the across-the-board average. There was an 8 percent year-on-year increase in the volume of new business obtained from this sector.

In 2015, there was a strong rise in new business transacted with the state. Measured in terms of transaction volumes, the proportion of state-sector investment accounted for by leasing transactions remains very small. But this proportion doubles if the state sector is taken to include not just public bodies in the narrow sense, but also state-owned enterprises and public bodies that have the status of separate legal entities.

12 percent of all new business acquired in 2015 was obtained from *Private Households*. This was a slightly higher percentage than in 2014. Cars and estate vehicles accounted for more than 90 percent of the business transacted with *Private Households*; as might be expected, captive leasing companies benefited most from this demand. Since the mid-1980s, the captives have been very successfully offering innovative leasing agreements accompanied by attractive supplementary service packages to *Private Households*. Compared with 2014, new business obtained from *Private Households* grew by 8.6 percent.

The *Transport & Telecoms* sector is particularly sensitive to the ups and downs of the macroeconomy. After strong growth in 2014, new business in this sector dipped by almost 10 percent. Only the captive leasing companies were able to report growth. The sector as a whole generated a good 10 percent of all new leasing business obtained in 2015.

Fifth place in the customer-group rankings was occupied by *Trade & Commerce*, which contributed just under 10 percent of the overall value of the leasing market. This sector is very leasing-oriented. The current

Leasing has established itself even more firmly in the *Construction Industry*. Suppliers of construction technology, equipment and services have been profiting from consolidation within this sector and from the current healthy state of the housing construction market. New business acquired from this sector increased by 11.2 percent in 2015. Apart from the severe downturn caused by the financial crisis in 2008, leasing investment in the construction sector has been on a steeply rising curve since the turn of the millennium, and the penetration rate is currently above 50 percent.

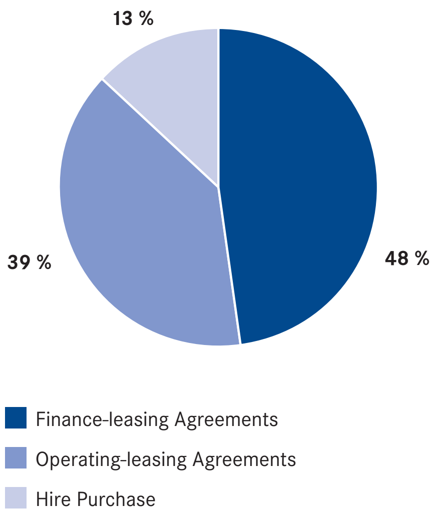
The *Primary Sector* – i.e. *Agriculture, Mining & Public Utilities* – contributed some 3 percent to the total value of the leasing market. Agricultural and forestry equipment are the types of assets most frequently leased in this sector. New business in 2015 was up by an impressive 18.5 percent, though this increase was achieved from a small base.

There was also a sharp rise in new business transacted with the *State Sector*. Measured in terms of absolute business volumes, leasing accounts for no more than 2 percent of all the investments financed out of public funds – i.e. investments made by regional authorities and social security funds. For statistical purposes, state-owned corporations, state-funded research institutes, public health-care bodies and charities are normally lumped into other customer groups, but if their leasing activities are included in the figures for the *State Sector*, a rather different picture emerges: this sector then accounts for a significantly higher proportion of all new leasing business transacted.

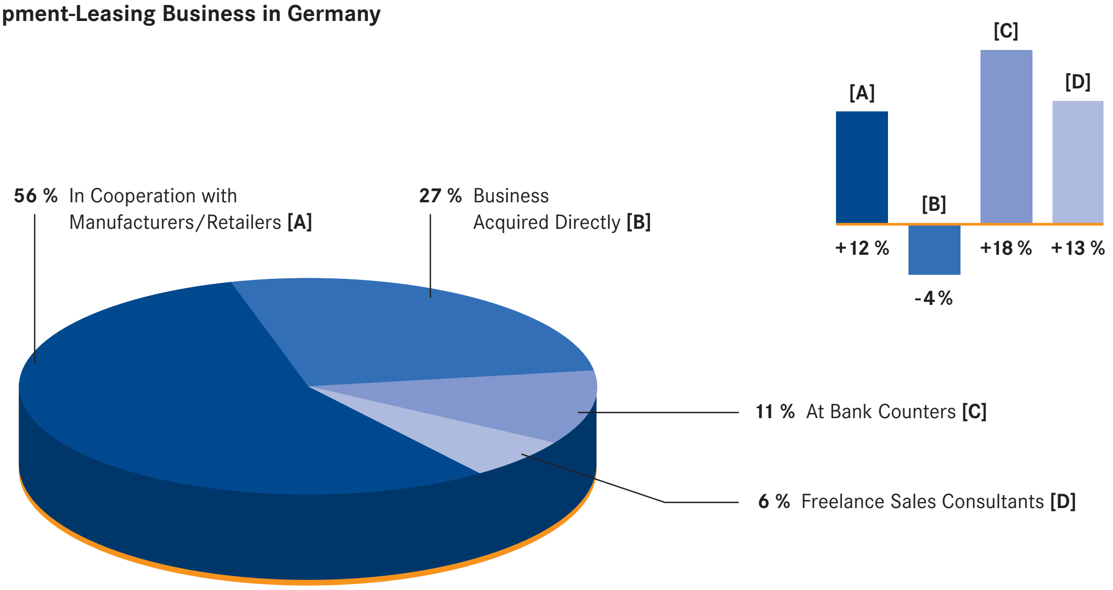
The Various Types of Equipment Leasing Agreement

In 2015, the member companies of the BDL concluded 1.55 million new equipment-leasing agreements, which was 6 percent more than in the preceding year. The average value of a new agreement was 29,000 euro, which, calculated at current prices, represents a year-on-year drop in value of 1.6 percent. Measured in terms of acquisition values, the new equipment procured and leased on to customers by the member companies of the BDL in 2015 was 52.7 billion euro, which was 7.7 percent more than in 2014. Of this, 87 percent (i.e. 45.9 billion euro) of the value was generated through leasing agreements, and the remaining 13 percent (6.8 billion euro)

Breakdown by Agreement Type of New Equipment Leasing Business in Germany



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



Source: BDL

through hire-purchase transactions. Compared with 2014, the volume of new business acquired through both leasing and hire-purchase agreements increased significantly (by 6.8 percent and 13.3 percent, respectively). If hire-purchase agreements are disregarded, and leasing considered on its own, well over half (55 percent) of all German leasing business was conducted 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 in this way are generally amortized in full by the lessee.

The remaining 45 percent was transacted through operating leasing agreements. With this type of agreement, the financial/investment risk is borne by the lessor, for the only way the leasing company can recover the residual value of the asset it has leased is by selling it 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:

- The lion's share of new business is acquired through agreements concluded with manufacturers and dealers. In manufacturer leasing, manufacturers offer the end customer leasing facilities either through their own subsidiary leasing companies or through a captive leasing partner. A variant of this approach is vendor leasing, where the manufacturer relies on a dealer to set up contact between the customer and the leasing company. There was a year-on-year increase of 11.5 percent in the volume of business acquired in this way, and around 56 percent of all leased-equipment business was acquired by manufacturers, their subsidiaries, their captive partners or by dealers working together with manufacturers.
- In direct selling, the leasing companies' own sales teams establish direct contact with the customer. In 2015, there was a year-on-year fall of 3.5 percent in the volume of business acquired by such teams, and direct selling last year accounted for just 26.5 percent of all new equipment-leasing business.
- Leasing facilities are frequently offered by banks as an alternative to normal bank loans. Given current capital market conditions, many banks view this as an attractive marketing alternative. The volume of new business generated at bank counters was 17.5 percent higher than in 2014. Some 11 percent of all new leasing business came through this channel.
- Freelance sales consultants find customers, negotiate leasing agreements with them and then call in a leasing company. Freelancers last year acquired 12.5 percent more business than in 2014, and they contributed 6 percent to the value of all new equipment leased.
- In e-commerce, potential customers bypass vendors and sales consultants by seeking out companies' internet portals for themselves. In theory at least, the internet

> "The leasing sector got off to a flying start in 2016. New equipment-leasing business in the first quarter grew by 10 percent. However, we are still concerned about the investment climate in Germany. As in the past, not enough is being invested."
>
> **Horst Fittler,** ***Managing Director of the BDL (Federal Association of German Leasing Companies)***

offers an efficient medium for the marketing of small-ticket items, and in 2015 there was a year-on-year increase of 5.7 percent in the volume of business transacted online. But internet transactions still account for less than 1 percent of the value of all equipment leased in Germany and for this reason are not represented in the "Channels for the Acquisition of New Equipment Leasing business in Germany" pie chart.

International Leasing Business

Foreign leasing business can be conducted through cross-border agreements or through so-called domestic leasing. German leasing companies started to expand into foreign markets in the early 1980s by offering cross-border leasing facilities. 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 company and the foreign lessee. The setting up of foreign subsidiaries with local expertise offers a number of 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.

The foreign activities of German leasing companies are highly sensitive to the economic conditions prevailing in the various national marketplaces. In 2015, the total value of cross-border leasing transactions was 0.26 billion euro, which was 23.8 percent more than in the preceding year. This growth was achieved through a small number of high-value production-machinery transactions and the leasing of "other products". The volume of domestic-leasing transactions outside Germany, in which standardized transactions predominate, also grew (by 12.9 percent); the total value of new business transacted through domestic leasing came to 3.2 billion euro. It should be noted that domestic leasing outside Germany is not taken into account in the statistics compiled by the BDL about its members' acquisition of new business. Instead, these transactions are included in the volumes of investment recorded for the respective foreign countries. In 2015, around a third of the member companies of the BDL were active in markets outside Germany.

The Outlook for 2016

In their Spring 2016 Joint Economic Forecast, the leading German economic research institutes forecasted that the moderate upturn Germany is currently experiencing would continue. This upturn is largely being driven by the rise in domestic demand that has followed from the fall in oil prices and in the value of the euro, and from the current uptick in demand in the rest of the eurozone, where a modest economic recovery appears to be under way. The research institutes also predicted that private consumption would grow in line with increases in real disposable incomes. But whereas earlier assessments held out the hope of an export-based recovery, the research institutes now expect few positive effects from export activity. They have predicted that German GDP will grow by 1.5 percent in real terms this year.

Note on Cross-Border Leasing

Cross-border leasing should not be confused with US lease transactions, as frequently happens in media reports. US lease transactions are a tax arrangement that was used in the past by German municipalities to profit from tax incentives offered by the USA. Under this arrangement, infrastructural installations and facilities (sewage plants, subway networks, etc.) were leased to American investors and then immediately leased back. US leases are often equated with cross-border leasing, but in fact they have nothing in common with German finance-leasing models – regardless of whether the financial flows in the transaction in question cross any borders or not.

The investment climate remains inclement. Private companies are putting projects involving capital outlay on hold. According to the research institutes, this state of affairs will not change until there is a sustained economic upturn. It is estimated that investment in equipment and so-called other products in 2016 will turn out to have increased by 3 percent in nominal terms, and investments in non-residential buildings by 2.7 percent.

According to the BDL's quarterly Trend Report, the value of new equipment leased out or supplied on hire purchase terms in the first three months of 2016 was 10.0 percent higher than in the corresponding period in 2015. The leasing industry expects new business to continue to pick up in the coming quarters, and over the year as a whole to exceed the volume achieved in 2015 by between 3 and 5 percent. This is based on the assumption that the global economy remains stable. It is expected that the leasing of equipment will continue to account for an increasingly large proportion of overall investment in equipment. ▪