ARE INTEREST RATES INCREASES GOOD FOR LEASING ?

SALES BOOTCAMP

19 04 2023

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1- Context

-why do rates increase

-what's next ?

2 – Impacts for lease

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FACTORS INFLUENCING EUROPEAN INTEREST RATES ON THE FINANCIAL MARKETS

1. Central bank policy

   (control inflation < 2 %)(EU)

2. Economic conditions

   (inflation, growth, unemployment (US))

3. Fiscal policy (deficits, trust/risk)
4. International events
5. Market expectations/anticipations

Measuring inflation – the Harmonised Index of Consumer Prices (HICP)

Last update: 17 March 2023. Next update will be in the afternoon of 18 April 2023. Latest HICP data can be accessed via the link below the dashboard.

HICP inflation in the euro area decreased to 8.5% in February 2023 compared to 8.6% in January 2023

	Euro area	Lowest Luxembourg	Highest Latvia
February 2023	**8.5**	**4.8**	**20.1**

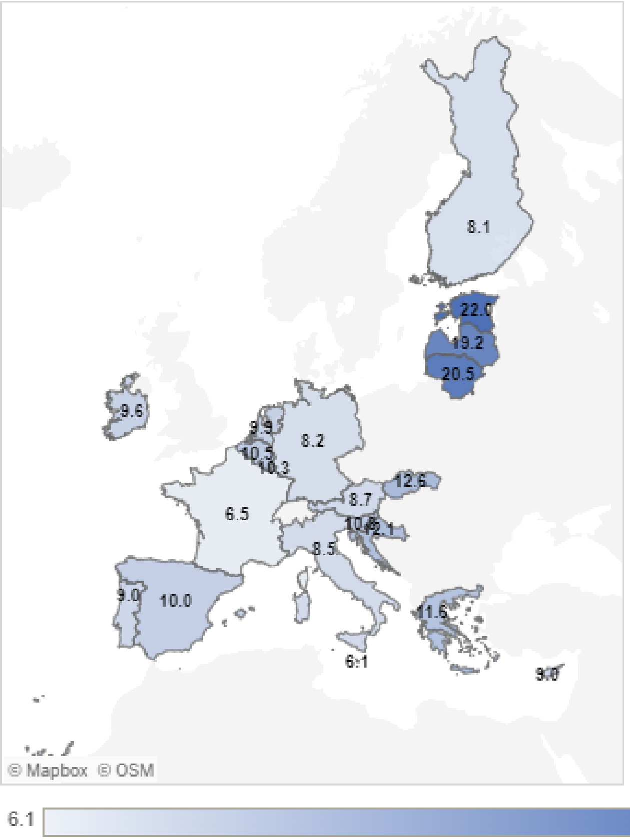
HICP inflation rate - **Overall index**

June 2022, Euro area countries

Select area

Euro area c...

Select euro area



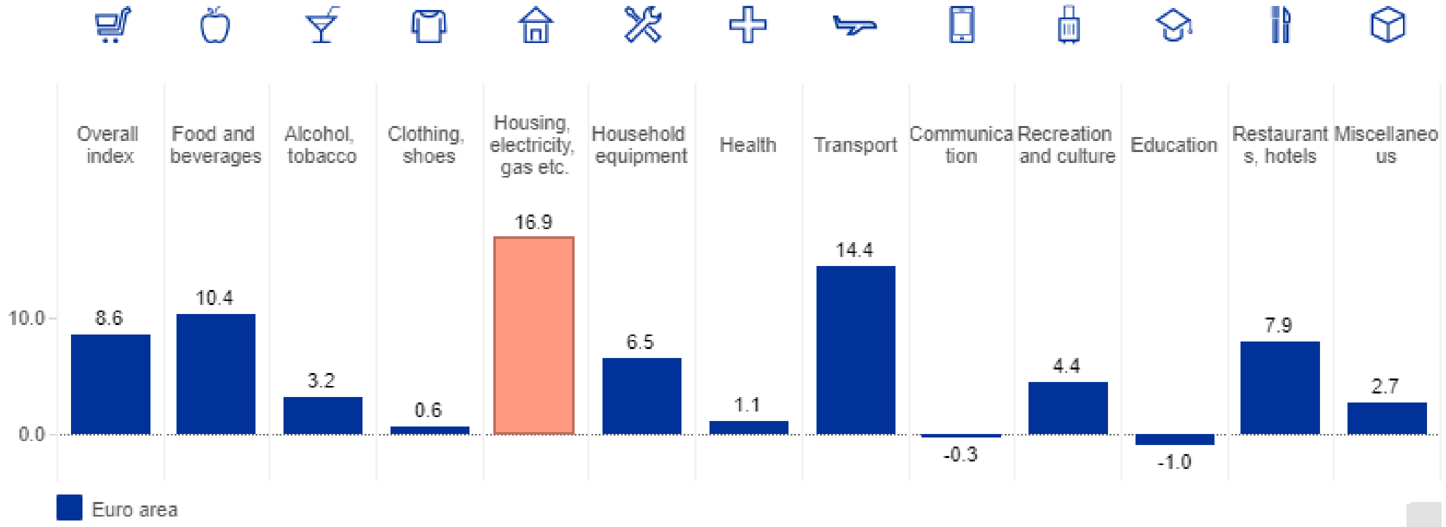
Cyprus

Luxembourg

Malta

Overall and breakdown of HICP **by components**

June 2022, Euro area

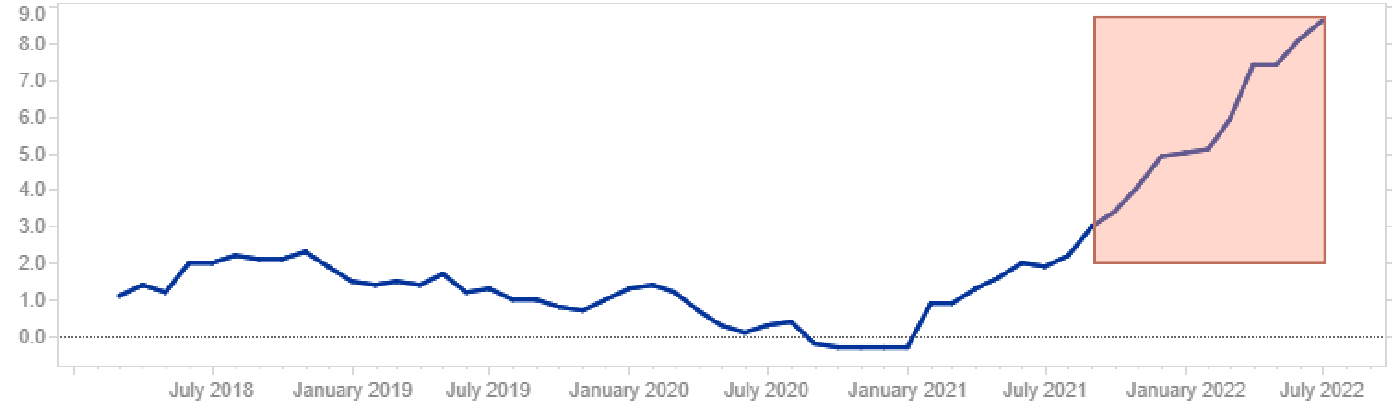


Filter dates

January 2018 — June 2022

HICP inflation rate - **Overall index**

Euro area



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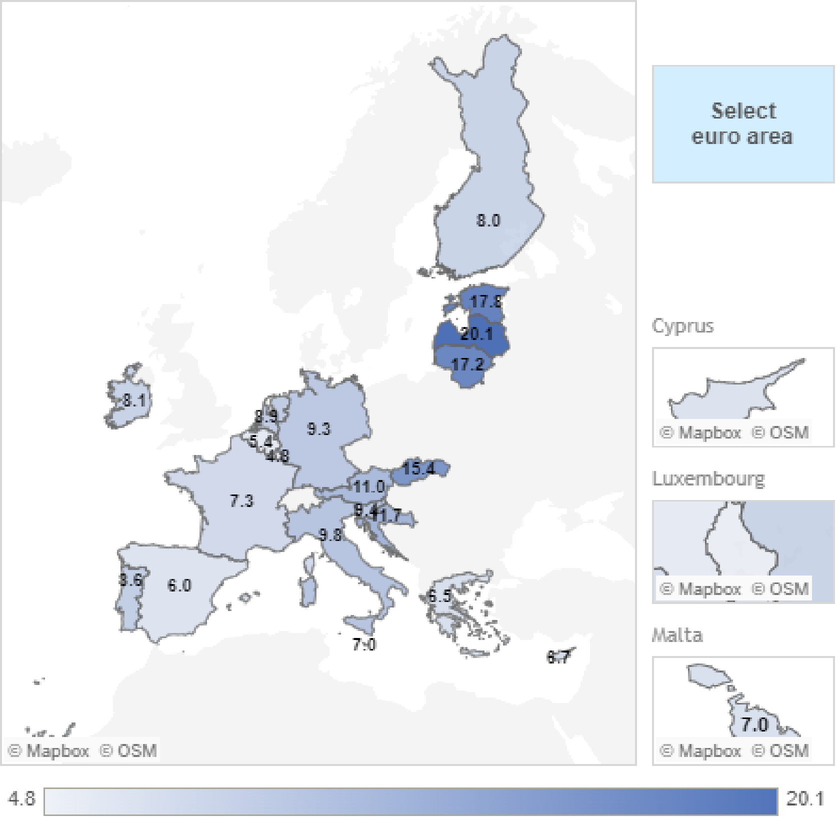

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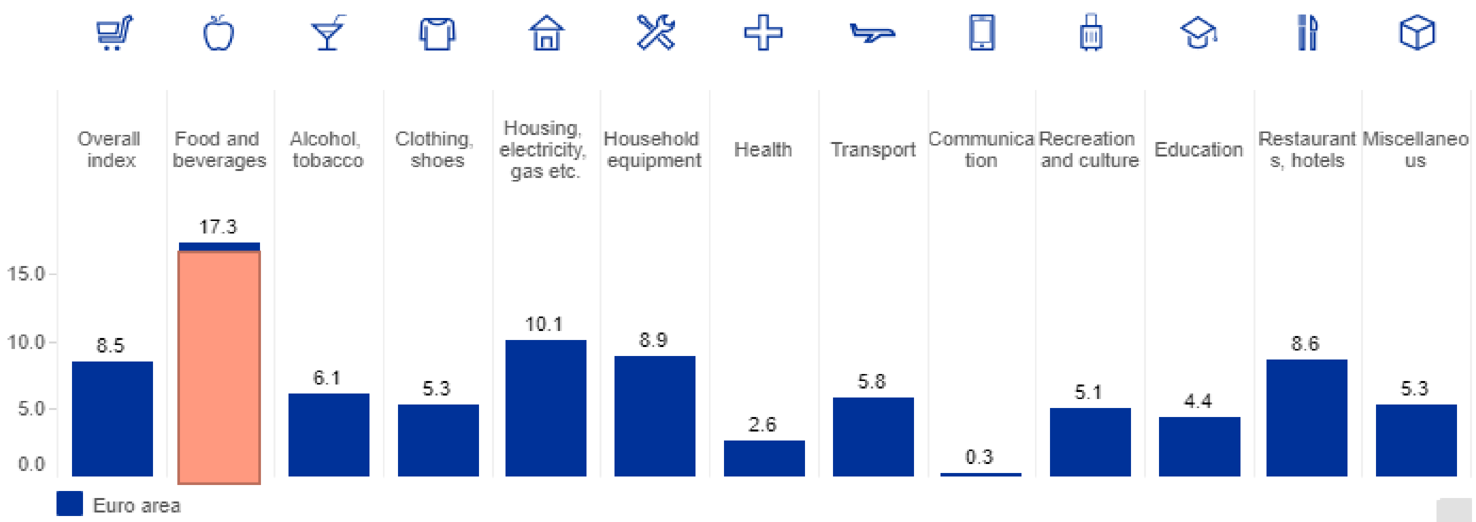

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HICP inflation rate - **Overall index**

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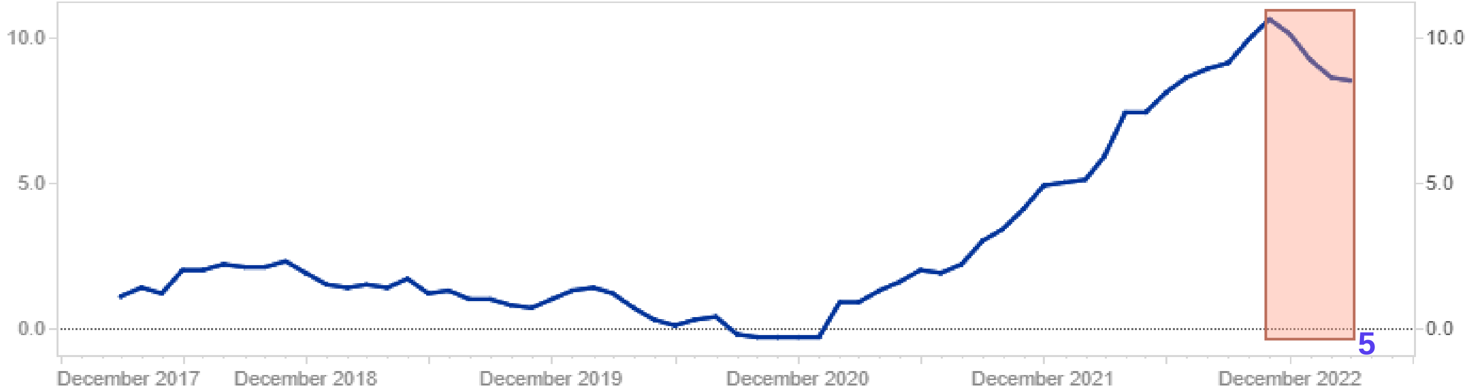
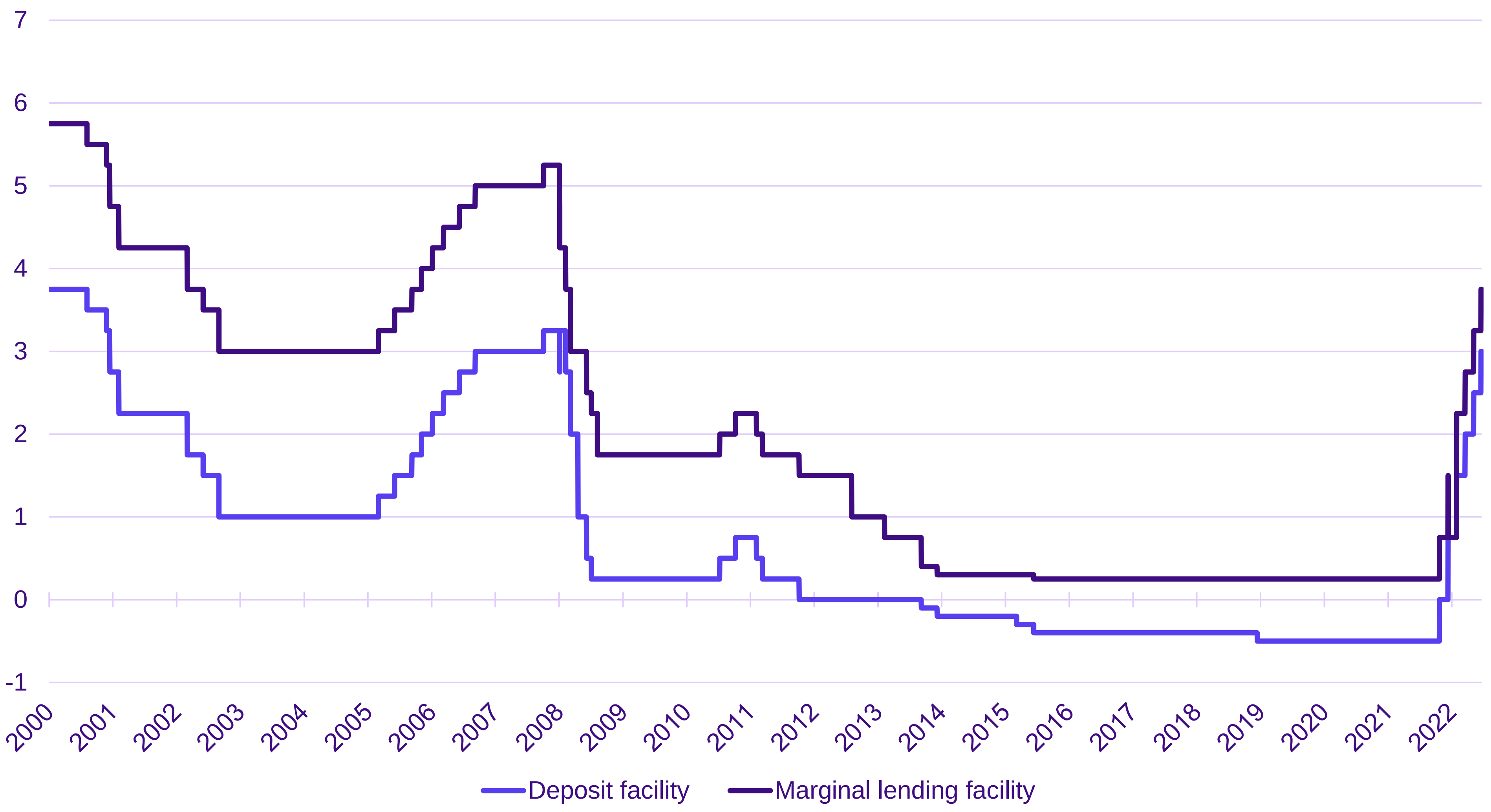
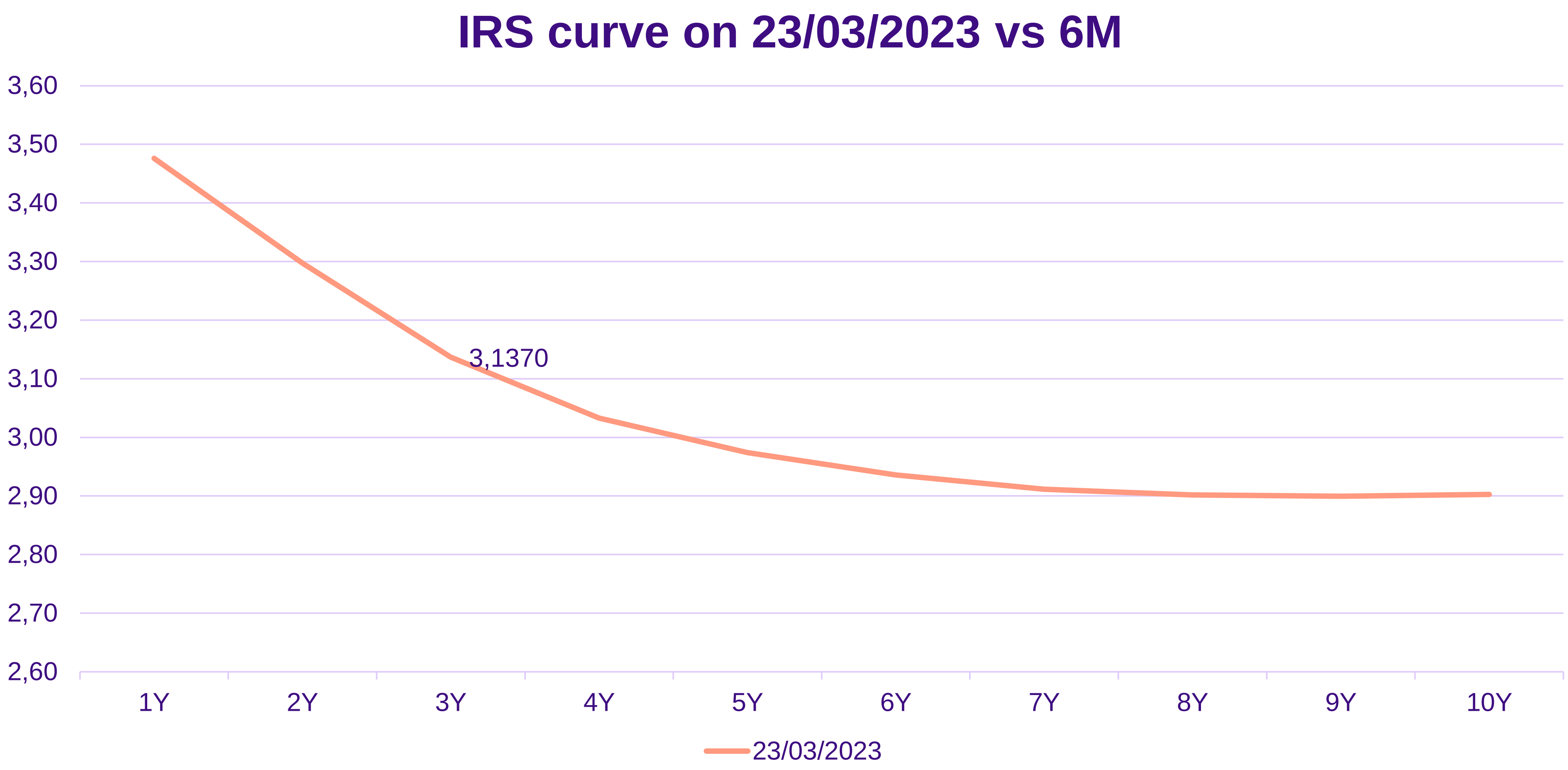


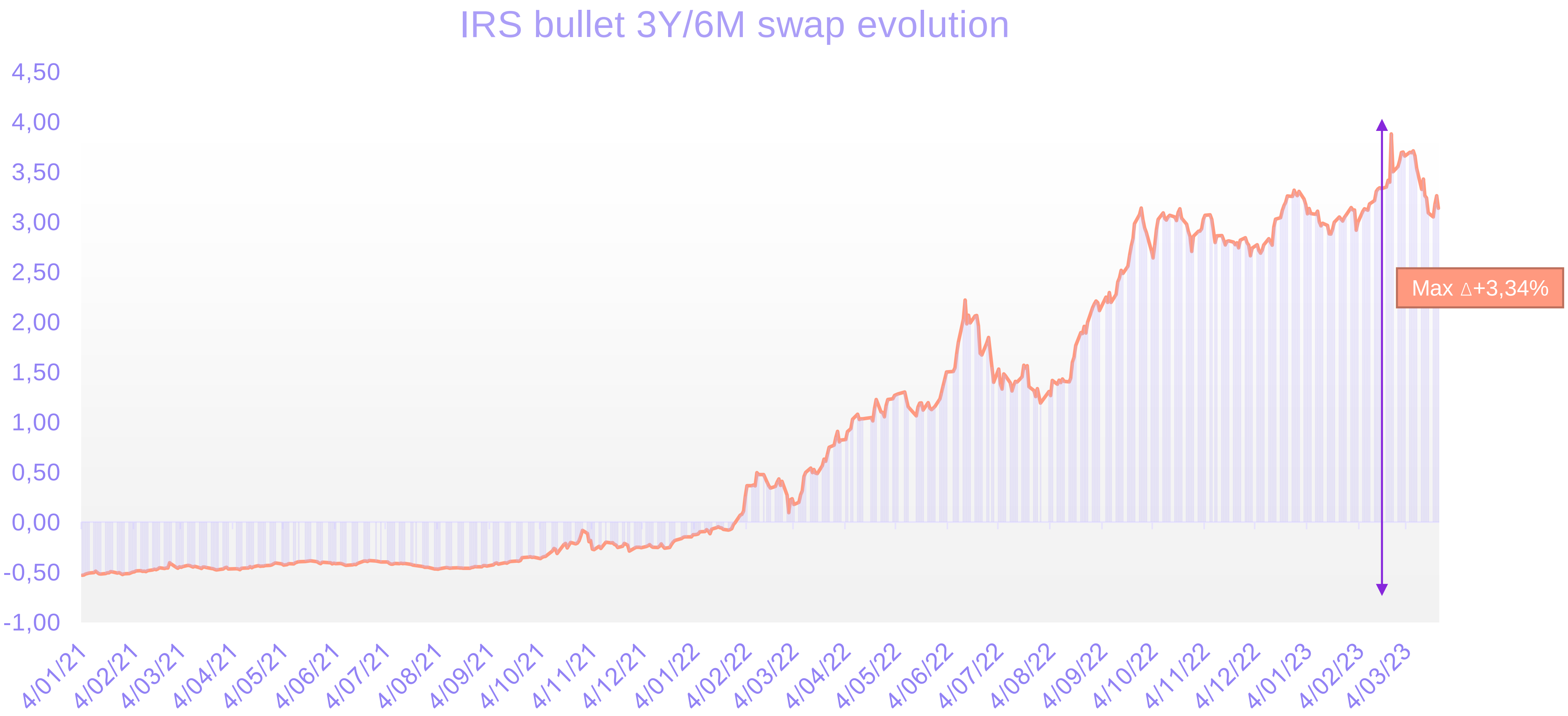
ECB fiscal policy



Impact on rates

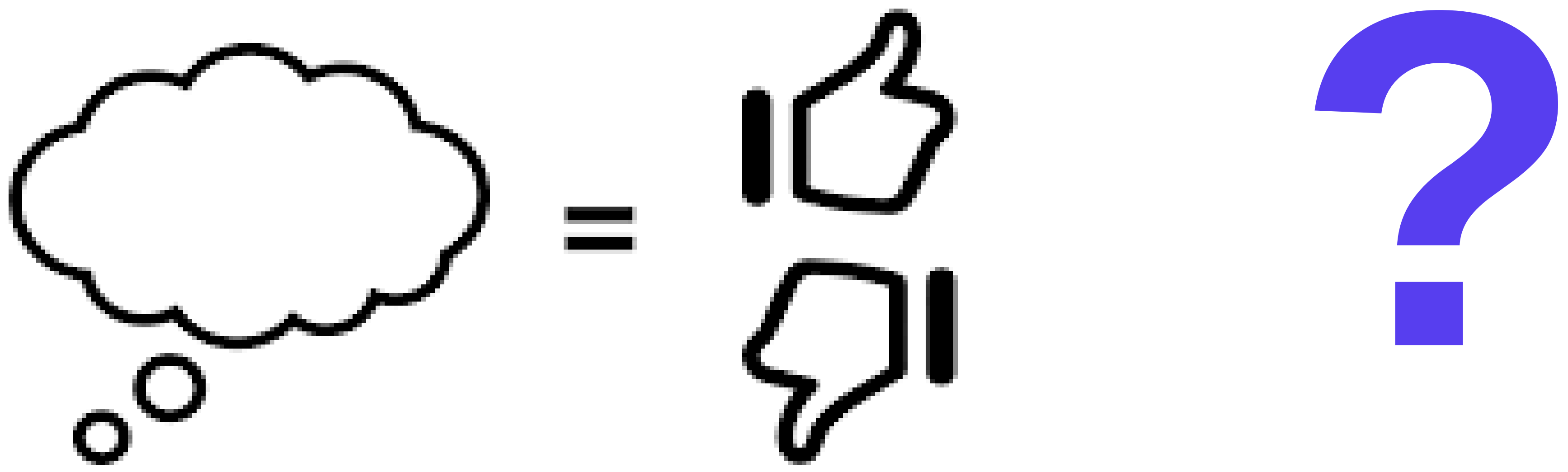


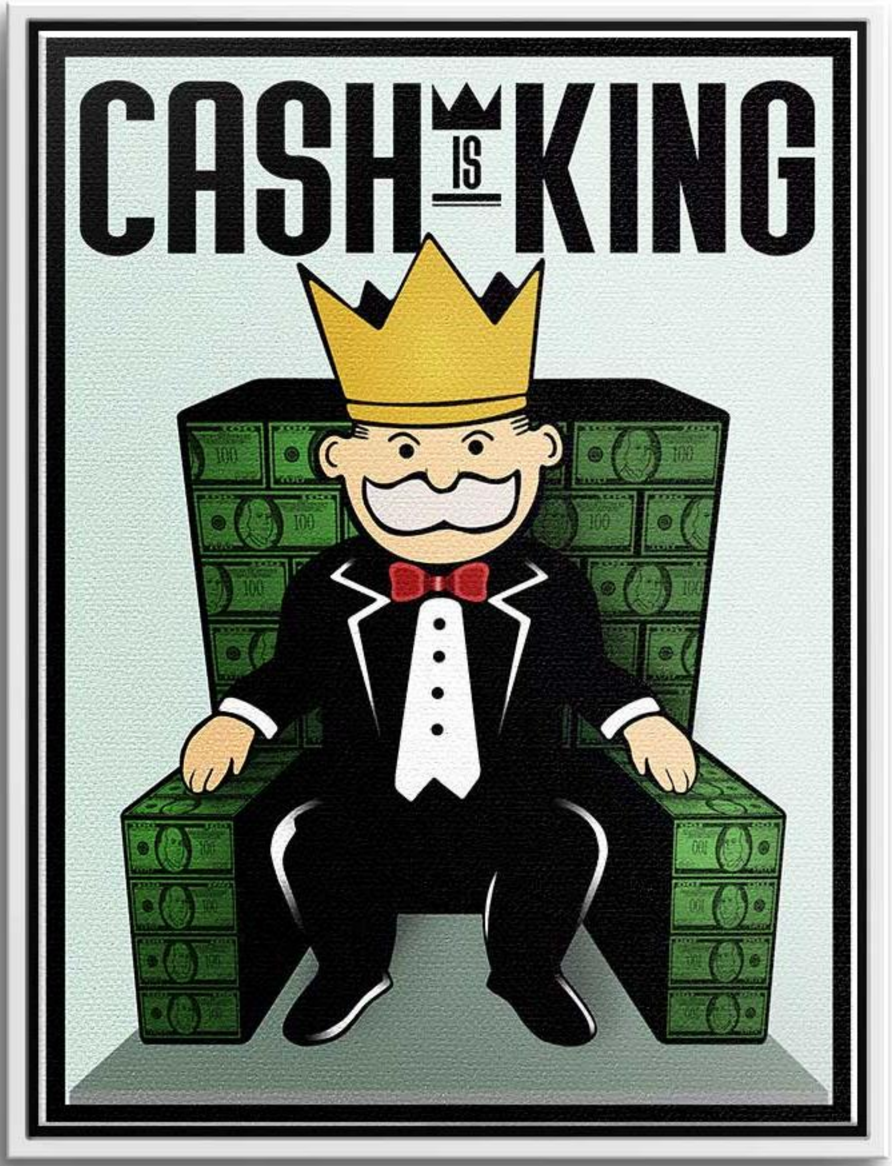
Impact on rates



What’s next - anticipations

Impacts for Lease





HOW TO KEEP DOING BUSINESS AT THOSE RATES CONDITIONS ?

Leasing remains a good option to diversify its funding sources

1. with unexpected events (“buffer”,“credit crunch”)
2. Investment Opportunities in Core Business
3. Improve Working Capital
4. Debt Obligations/Covenants
5. Flexibility
6. Cost of lease < cost of capital (WACC)

BUT…

1. Protect your margins

    -additional spread as buffer

    -standard in contract : indexation clause, preferably with quantified €

    -have a good view on timing of delivery

    -select the “good” day for rates

    -quick closing of rof’s and tro’s

2. Monthly/Quarterly/Annual payments

PV Investment	100.000,00	100.000,00	100.000,00	100.000,00
n	36	12	6	3
I	6,5%	6,5%	6,5%	6,5%
RV	0	0	0	0
PMT	€ 3.048,39	€ 9.091,80	€ 18.027,12	€ 35.453,12
Sum PMT	€ 109.741,97	€ 109.101,55	€ 108.162,69	€ 106.359,35
Sum PMT/Investment	109,7%	109,1%	108,2%	106,4%

3. Less value for RV

PV Investment	100.000	100.000	100.000	100.000	100.000	100.000
n	36	36	48	48	60	60
I	3,25%	6,5%	3,25%	6,5%	3,25%	6,5%
RV	10000	15988	7000	15199	3000	13426
PMT	€ 2.647,15	€ 2.647,15	€ 2.082,10	€ 2.082,10	€ 1.757,13	€ 1.757,13
Sum PMT	€ 95.297,41	€ 95.297,29	€ 99.940,97	€ 99.940,88	€ 105.427,58	€ 105.427,57
Sum PMT/Investment	95,3%	95,3%	99,9%	99,9%	105,4%	105,4%

4. Difference between lease cost and treasury revenue

04-01-22	**Euribor 3 m -0,56 %**	**IRS 5 years + 3 % spread 3,036 %**
05-01-23	**Euribor 3 m 2,178 %**	**IRS 5 years + 3 % spread 5,978 %**

5. Less margin on TRO's

PV Investment	100.000	100.000
n	36	36
I	3,00%	6,5%
RV	0	0
PMT	€ 2.900,87	€ 3.048,39
FV after 6 months	83.951,26 €	84.654,10 €
Refresh volume	14.000,00	14.000,00
Cost	97.951,26 €	98.654,10 €
Margin	2.048,74	1.345,90

5. Less margin on TRO's

PV Investment	100.000	100.000	100.000	100.000	100.000	100.000
n	36	36	48	48	60	60
I	3,00%	6,5%	3,00%	6,5%	3,00%	6,5%
RV	0	0	0	0	0	0
PMT	€ 2.900,87	€ 3.048,39	€ 2.207,91	€ 2.358,72	€ 1.792,39	€ 1.946,07
FV after 6 months	83.951,26 €	84.654,10 €	88.145,53 €	88.871,28 €	90.660,58 €	91.394,51 €
Refresh volume	14.000,00	14.000,00	10.000,00	10.000,00	7.900,00	7.900,00
Cost	97.951,26 €	98.654,10 €	98.145,53 €	98.871,28 €	98.560,58 €	99.294,51 €
Margin	2.048,74	1.345,90	1.854,47	1.128,72	1.439,42	705,49

6. Fix future rates

Example on April 17, 2023

IRS 5 years and 3 months = 3,15 %

Euribor 3 months = 3,219 %

So the net cost of months 4 till 63 is lower than 3,15 %.

Only valid if the start date of the contract in 3 months is 100 % certain

One customer is challenging us and tells us that we should guarantee our rate and not apply the indexation clause

Summary

-Rate volatility and uncertainty are here to stay

-Companies' needs: focus on core business, alternative financing sources, buffers, flexibility

-Econocom always succesful in troubled markets

-New offers contributing to cost savings (remarketing, green & energy)

-Higher rates impact our margins

-Be strong in implementation and optimization

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Thank you !

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