Come together for credit

Based on his presentation at the Europlatform Conference held in October, **Antonio Gomez de la Vega**, director of JLG Financial Solutions, recommends strategies to attract finance to the access sector.

Antonio Gomez de la Vega presents his view on finance to a fascinated Europlatform Conference

Can rental companies still find credit?

The quick and simple answer is yes, but a few things will need to be done by all the actors involved in the access equipment rental sector (manufacturers, rental companies and funders) in order to gain reliable credit again.

The first thing to note is that there is no special aversion to our sector by funders. This crisis is due to a lack of liquidity and is affecting many sectors, not just the access industry. Of course it is a logical consequence that where rental companies do not meet existing payment obligations to funders, they will be further impacted by lack of available credit.

There are things that need to be done by all rental companies to give themselves the best chance of access to credit after the crisis, for example, strengthening the balance sheet; better monitoring and controlling cash flow, while respecting obligations and relationships; restructuring business/processes and reinforcing contact with partners and funders. These will certainly have a positive impact on accessing credit earlier and under more appropriate conditions.

What should be done by rental companies operating in the access industry to facilitate quicker access to credit?

To match their requested financing terms with the machinery amortization, life cycle and purchase price is desirable. For example, small scissors should naturally have shorter finance terms than big booms, so structure financing packages accordingly. Rather than having one large lease contract with the wrong model mix of machinery, try to sign various smaller lease contracts that include the appropriate model mix.

Better optimization of fleets is a must. Buy what your business needs for today and for what you expect for tomorrow. Do not get distracted by short term bargains that may be presented to you. Long term success requires long term planning, and funders look for your long term vision and your discipline in >

delivering those results through good times and bad.

Think about optimising fleet maintenance. What your business does can affect the value of your assets, both in earning you money whilst on rental but also carrying value when you sell them. Funders will be more open to longer lease periods if they can see a longer life for the machinery.

Let's remember there are many sectors to serve with access equipment. Many people associate access equipment solely with construction, but there are many other business types and sectors that can benefit from using MEWP's. Rental companies can not only profit from serving and growing these customer bases, but funders will also appreciate rental companies that have diversified sources of income. This can protect against cyclical change and pressures – for example the problems we are currently facing with the construction market - but also demonstrates a maturity of perspective and management that protects cash-flows in tough times.

"Funders too must adapt their financial products to the new needs of our sector. Extending financing terms to match the economic life of the assets would be a major leap forward for us all, and a competitive advantage for a true asset-based lender."

Antonio Gomez de la Vega, director of JLG Financial Solutions

What can manufacturers do to improve the supply of credit to rental companies in the access industry?

A key role for all manufacturers is to demonstrate the investment value of their products – not only to rental companies and their customers, but also to the financial partners whose funding of our products allows our businesses to grow and develop. This can come in many forms, but it certainly includes showing the long economic life and contribution to cash-flow a MEWP can give to rental companies.

Manufacturers can also assist in sustaining the life-cycle and value of products though providing after-sales, parts and product support activities that keep equipment in best condition (of safety and value). These are typical factors that funders look for to gain confidence in the underlying value of the assets they finance. However, a manufacturer's efforts alone will not work; they must also be complemented by rental companies' own efforts in developing the right financial tools for their business. A measure of maturity and success shows itself when manufacturers, rental companies and funders come together to see the commercial potential of MEWPs as income generators with real asset value over the long term.

This already happens in certain cases, but a more general positive can be seen when looking at the available financial products. It's no coincidence that just ten years ago a typical term for purchase lease financing was 36 months, but that this has now grown to 60 months. It is possible to see that financing terms may yet extend further in line with true, primary economic life (maybe up to 84 months), though this will require even closer cooperation between the actors (manufacturers, rental companies, finance houses and probably banks -for cash-flow management).

Despite this current crisis, where the rental rates and utilisation ratios that were enjoyed in 2007/8 have been impacted for many rental companies, we should expect that there will be a lag in recovery. This may prompt some companies to reflect on their financial models and in particular how best to align amortization of assets on the balance sheet with the financing term taken.

Finally, all businesses are aware of the challenge of juggling the balance sheet, profitability and also cash. I can assure all the readers that manufacturers are sensitive to the cash-flow challenges of our own businesses these days, and to the challenges faced by our customers. However, we must also remember that a funder is choosing whether to offer long-term finance to our sector, not short-term cash-flows (for which other tools and companies are available).

There are, unfortunately, plenty of examples in recent years of rental companies in the

access industry demanding (and receiving) MEWPs supplied with extended payment terms. Typically there are good intentions of why this is the case, but unfortunately these conditions come apart at sometime or another, and this impacts negatively on us all.

We must not expect funders to assume the risk of long periods without payments. As we see today, funders can choose whether (or not) to accept this and whether to adapt their selling terms to rental companies cash-flows. Small free payment periods upon initial supply/installation of product are, to a limited extent, understood by funders as being the nature of rental services, but the longer those free payment periods become, the more unlikely is that funders will accept to fund our sector.

The role of the funders is as important as that of the rental companies and the manufacturers in the access industry in order to return to the growth pace of our sector

Funders must keep confidence in our sector. To be very fair, I would say that in this past year, despite the crisis, many funders have kept their confidence in our sector.

It´s not my place here to defend the finance community as whole, however, what I have seen is that many funders have shown real maturity and understanding of circumstances facing rental companies. Sitting "on the outside" my experience is that funders have accepted the majority of the rescheduling requests presented by rental companies in the access industry throughout Europe.

Some might call it confidence in our sector, others might say that funders did not have many other choices as rescheduling was and still is a far more prudent option than liquidating recovered machines in a market that presently has little demand for product. However, the point here is that there is continued, mutual benefit in working together to mutual benefit.

All this said, keeping confidence in our sector and deals already done will not be enough to secure our future. Manufacturers as much as rental companies need funders

to show us the money again! If there is not much work, a well-managed rental company can go one year without buying machinery (probably two if its fleet is young), but after this they need to start renewing the fleet to remain competitive and get best value from their customer base. And for this purpose they need money.

Funders too must adapt their financial products to the new needs of our sector. Extending financing terms to match the economic life of the assets would be a major leap forward for us all, and a competitive advantage for a true asset-based lender. Flexibility to match rental company cash-flows with variable payment streams will certainly also help.

As a counter part for the funders, because they are taking more risk – as financing over a longer period increases the risk for a funder – payments should match availability of the product. Increased visibility over true asset values as well as matching the machine condition over time -bearing in mind regional variation in maintenance standards is important.

Just to summarize the funders role; funders must be partners, providing "asset finance" instead of "bank finance," as there is an asset behind the lease that has real, tangible value.

Will rental companies have access to credit again?

The fourth quarter of 2009 is going to be very challenging from a funders point of view, because they still do not have full confidence in the financial sector (in other words the global financial community's health), and therefore their liquidity will remain limited. So their credit departments have instructions to remain very "vigilant" in assessing and/or offering credit.

While not wanting to justify the scale of change in the funders' position, we all have to remember the easy access to credit in 2006, 2007 and 2008. It can be said that we are all now paying the price for the high volumes of funding, to a limited number of customers, in these periods. The debt must be paid-back to some extend, before it can grow again.

Calendar year 2010 will show us how well (if at all) the recovery will gain pace. Credit will still be limited, but there will be more credit available in 2010 than we saw in 2009 (especially in the second half of 2010), so let's be ready.

In conclusion, the access industry needs actors (rental companies, manufacturers and funders) to perform in complementary ways, and towards common goals/direction. The three actors are equally important for the growth of our sector. Each one needs the other two for its own growth, and this will result in a global growth for our sector.

Of course there have been issues that have caused our market to struggle. Some of them are due to the crisis and some of them are due to mistakes by each of the three actors (we cannot blame the crisis for everything). And, the only way to recover the growth pace for our sector is by the three of us working together, talking frequently, learning from our mistakes, and considering each other, not as the enemy, but as a "needed partner to succeed". **AI**