



III Leasing Encounter

CHALLENGES AND OPPORTUNITIES OF ASSET MANAGEMENT: *MEASURING AND MANAGING ASSET RISK*

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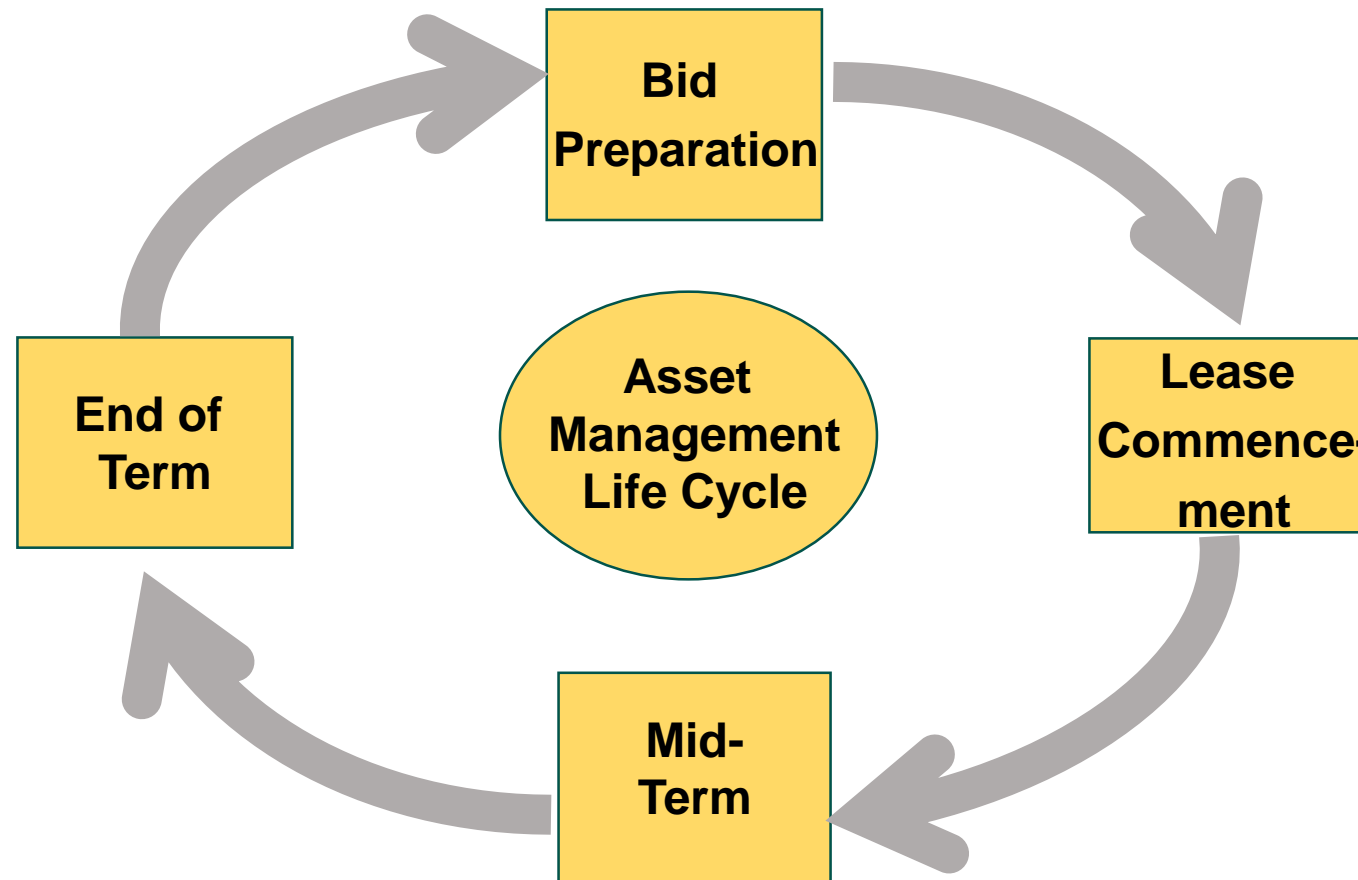
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OVERVIEW

- I. Role of Asset Management in Leasing**
- II. Asset Risk in Leasing**
- III. Expected Results of Proper Asset Management**
- IV. Equipment Analysis – Industry Perceptions of Equipment Markets and Future Business Opportunities**
- V. Equipment Market Conditions and Outlooks**

I. Role of Asset Management in Leasing

A. Maximizing profits through lifecycle management & minimizing risk



1. Asset management role in quote preparation (analysis)

a) Initial asset analysis and valuation

2. Lease commencement

a) Terms and definitions

b) Maintenance and return conditions, and

c) Lease options available to client

3. Mid-term

- a) Review lessee's financial condition
- b) Possible physical inspection
- c) Lessee intentions – “key assets”?

4. End of term preparation

- a) Review operative documents
- b) Prepare for EOT purchase option negotiations
 - i. Know your lessee
 - ii. Know your asset
 - iii. Know its value
- c) Execute purchase option or prepare for return

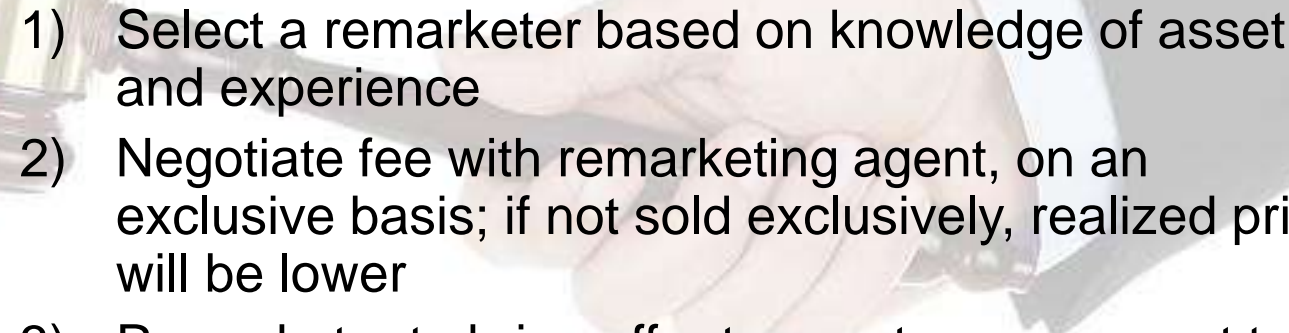
5. Return -- remarketing

- a) Inspection & appraisal report (value)
- b) Prepare a remarketing plan with estimated value range desired
- c) Commence remarketing plan
 - i. Leasing company to sell
 - 1) Location
 - 2) Inspection report
 - 3) Advertising media (eBlast, Magazine, trade association, etc.)

5. Return – remarketing (continued)

c) Commence remarketing plan (continued)

ii. Remarketer to sell

- 
- 1) Select a remarketer based on knowledge of asset and experience
 - 2) Negotiate fee with remarketing agent, on an exclusive basis; if not sold exclusively, realized price will be lower
 - 3) Remarketer to bring offer to asset management to accept or reject
 - 4) If offer accepted, then sale is closed by asset management or with asset management's approval

SEALED BID SALE

APPROX. 3,000 OFF-LEASE STEEL & ALUMINUM
DOMESTIC DRY VAN CONTAINERS 5' x 10' x 10'

FIRST RETURNS BEGIN OCTOBER

FOR MORE INFORMATION OR TO RECEIVE
A SALES BROCHURE

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SAMPLE

– VALUE MEASUREMENT – Three Approaches to Value

I. Cost Approach

Depreciated replacement cost new

II. Comparable Sales (Market)

Market value for same or comparable item

III. Income Approach

Present value of future earnings

Levels of RV Risk

Type of Value (Value Tier) --EXAMPLE--	Sales Price	% of FMV
Fair Market Value-in-Place (FMVIP) (Retail – Installed)	\$225,000	113%
Fair Market Value-in-Exchange (FMV) (Retail – Deinstalled)	\$200,000	100%
Orderly Liquidation Value (OLV) (Wholesale)	\$175,000	88%
Forced Liquidation Value (FLV) (UTH)	\$155,000	78%
Salvage / Part-Out Value (Sal. V)	\$12,000	6%
Scrap Value (SV)	\$2,000	1%

I. Cost Approach to Value **Example**

Depreciated Replacement Cost

Equipment— 5 yrs old; est. Useful Life: 10 yrs

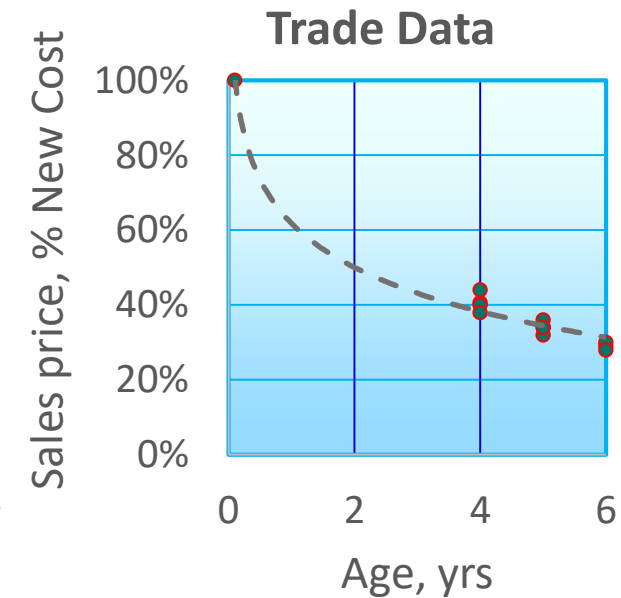
	<u>Description</u>	<u>% of RCN</u>
I.	Replacement Cost	100%
II.	Physical Depreciation: Age/Life; 5 yrs / 10 yrs; -50%	50%
III.	Functional Obsolescence: 2% per year; -10%	45%
IV.	Economic Obsolescence: -20%; and final value	36%

II. Sales Comparison Approach to Value (Market Approach) Example

EXAMPLE: Determine the value of a (5) year old Brand X – CNC turning center, Model Y w/ 20-in. swing, s/n 123456, w/ CNC controls

FMV Sales Database (\$ x 1,000) for Brand X – Model Y

	Cost New	4-yrs	5-yrs	6-yrs
Values (Price)	\$250	\$101.6	\$85	\$72.5
		110	90	75
		100	80	70
		95	85	
% of Cost New	100	38	34	29



Collateral curve as % of New Cost appears to be reasonable (based on the shape of the depreciation curve and experience).

VARIABLES THAT AFFECT RESIDUAL VALUE (+/-):



Make (top tier or not?) Condition (good, poor, etc.)

Model Location (in or out of prime market)

Size / Capacity Attachments / Upgrades

Age (newer or older) Overhauls (some or none)

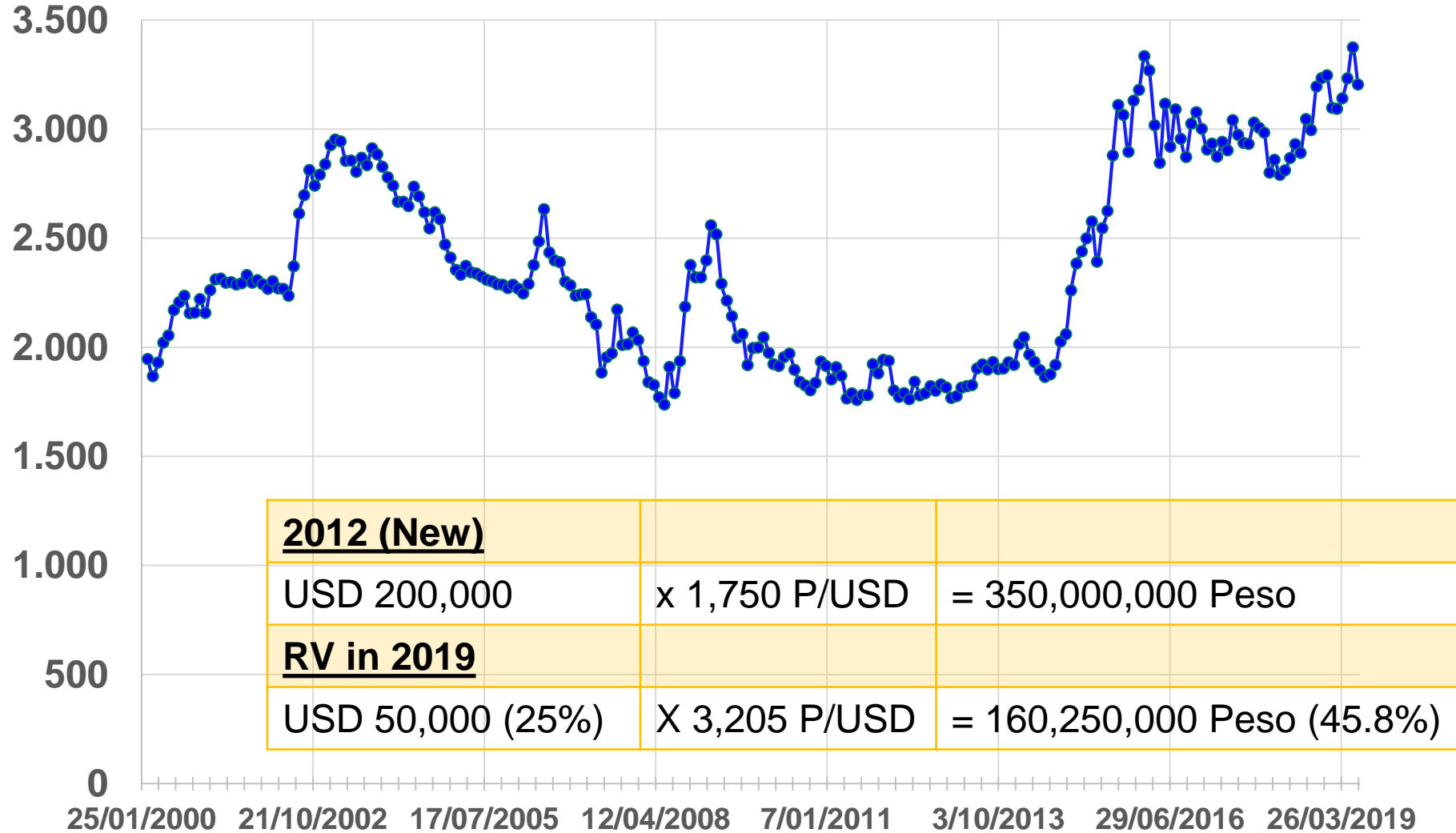
Regulations Foreign Exchange

Sales Tier (retail sale vs. under the hammer)

Utilization (number of hours, miles, etc.)

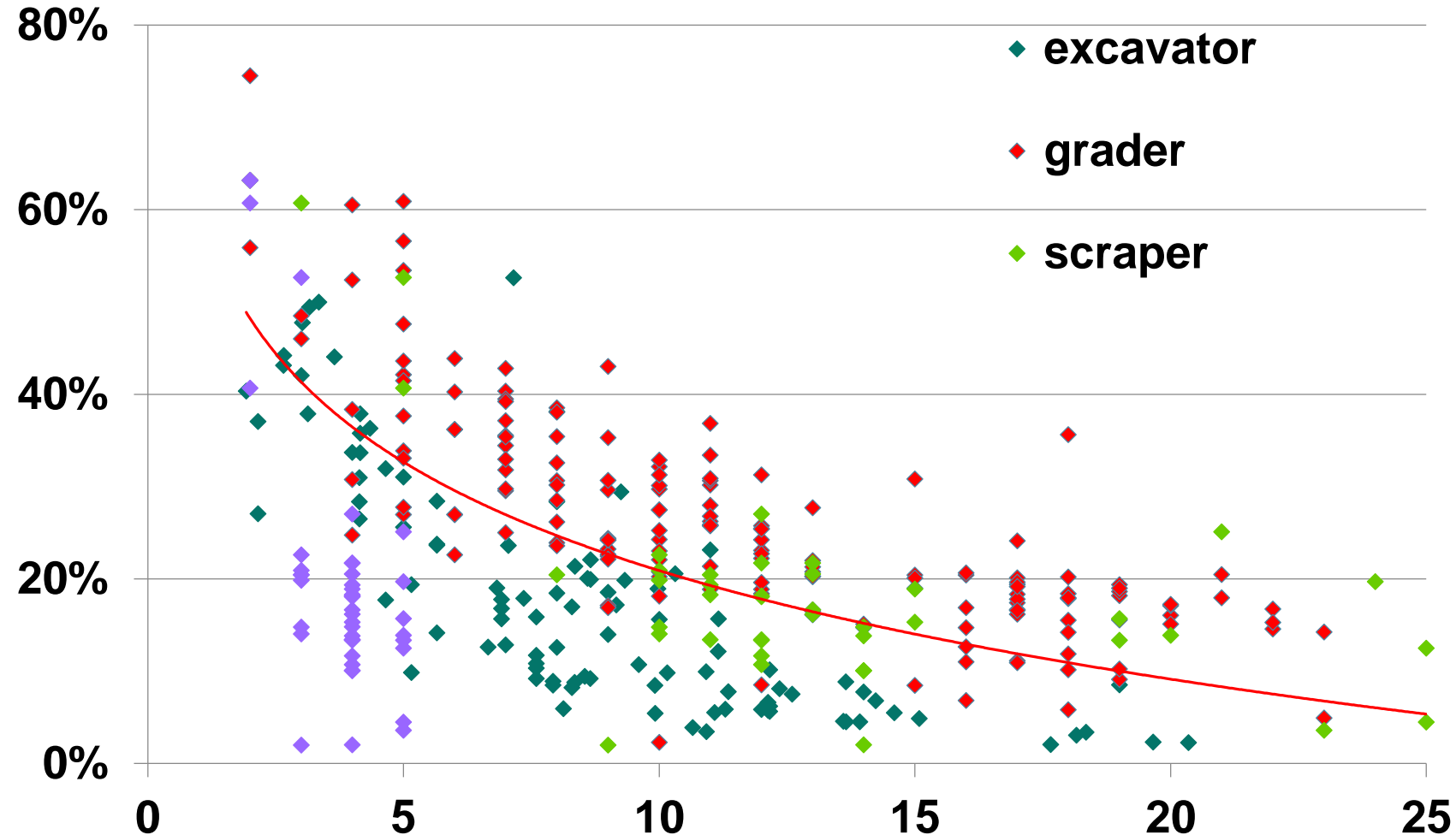


Historical Colombian Exchange Rate, COP / US\$



Market Data Charting

Construct'n Eqpt, RV as %New Cost vs Age



III. Income Approach to Value

NET PRESENT VALUE OF FUTURE EARNINGS:

(RECOMMENDED FOR ENTIRE FACILITIES)

RARELY USED



II. Asset Management's Role in Asset Risk in Leasing

A. Defensive role: Avoid losses because full value cannot be obtained from collateral.



B. Offensive role: Generating upside gains on residuals.



C. Asset management risk considerations:

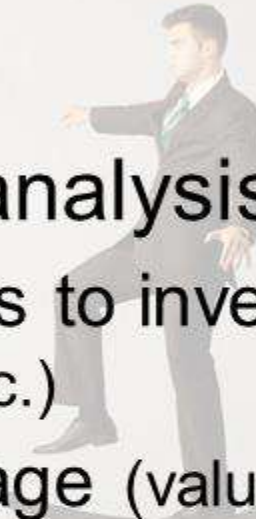
1. Full payout; debt versus net worth, leverage, interest rate coverage, etc. Asset can also play a secondary role in mitigating the risk with its liquidation value in event of default

- - - - - versus - - - - -

2. Purchase Option Leases; with residual values

C. Asset management risk considerations: (Cont.)

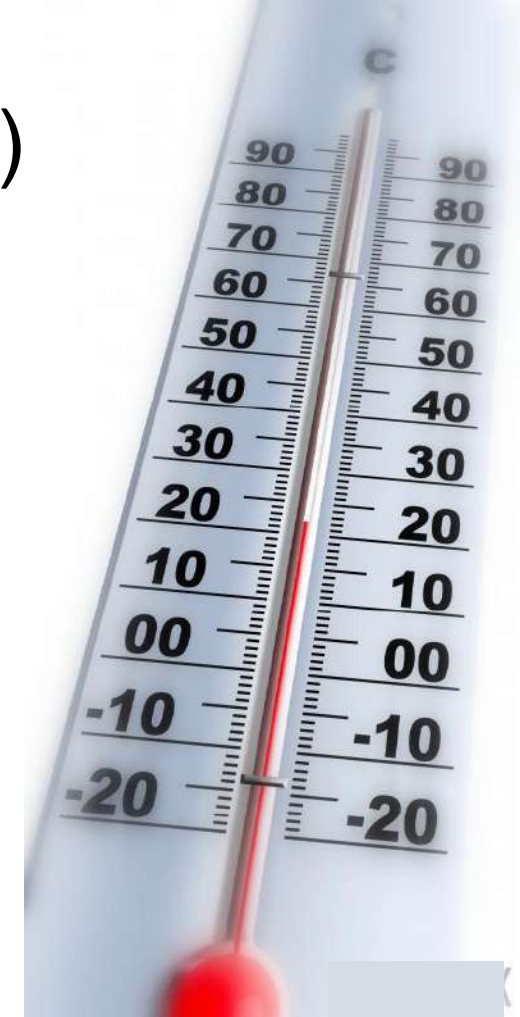
3. Residual value analysis

- 
- a) Equipment Types to invest in (Hot/Not survey, etc.)
 - b) Collateral coverage (valuation)
 - c) Marketability of the asset (experience & Hot/Not)
 - d) Continued-use value (essentiality) (key asset example: enterprise software), or
 - e) Hard value (market value of asset).

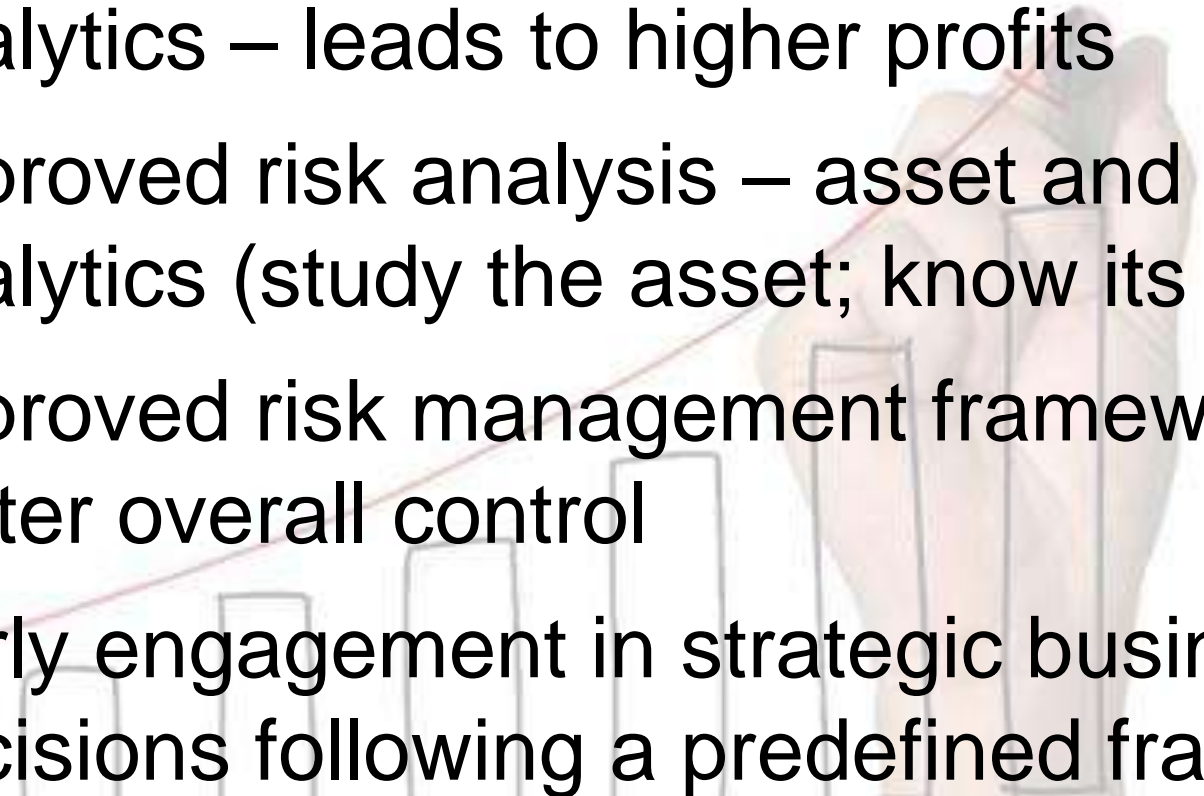
C. Asset management risk considerations: (Cont.)

3. Residual value analysis (Cont.)

- f) Level of RV risk assumed:
 - i. FMV-in-place (installed)
 - ii. FMV (retail)
 - iii. OLV (wholesale)
 - iv. Net OLV (OLV less cost of sale)
 - v. 80% of OLV
 - vi. Auction value



III. Expected Results of Proper Asset Management

- A. Reduction in losses thanks to planning and analytics – leads to higher profits
 - B. Improved risk analysis – asset and value analytics (study the asset; know its value)
 - C. Improved risk management framework – better overall control
 - D. Early engagement in strategic business decisions following a predefined framework
- 

IV. Equipment Analysis – Industry Perceptions of Equipment Markets and Future Business Opportunities

-- to assist lessors in identifying business opportunities for future success

A. What is Premise of Value?

1. FMV in continued use

2. FMV in place

3. FMV in exchange

5. OLV

6. Net OLV *

7. FLV (under the hammer)

8. Salvage

9. Scrap

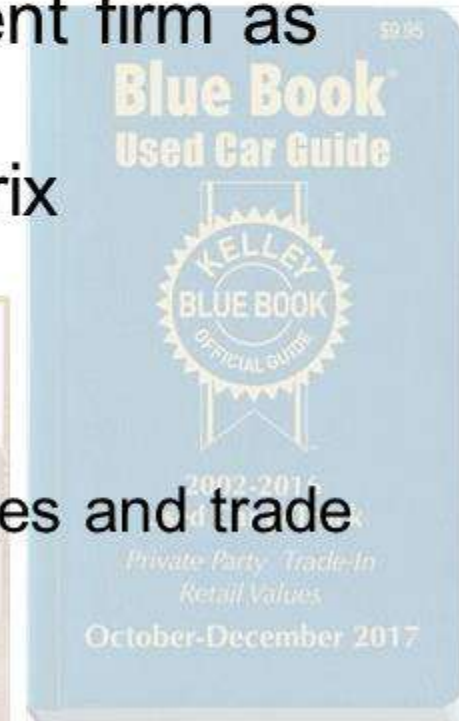
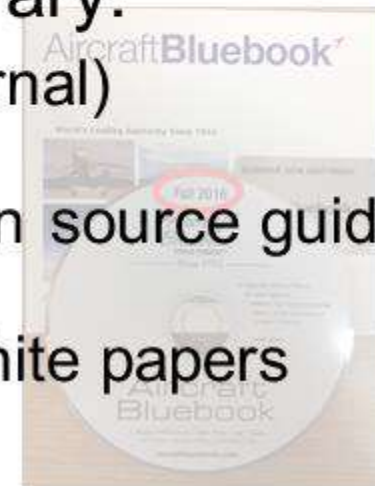
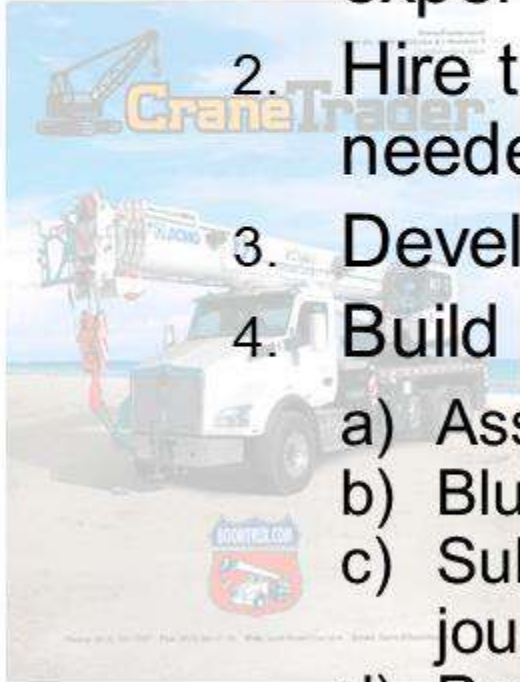
* After deduction of Cost of Sale

- B. Reduce losses by establishing a complete asset life cycle risk culture not only at commencement, but mid-term and end of term.
- C. Key to reducing losses – understanding the asset and its value on the used retail, wholesale or auction equipment market



D. Identify valuation sources and data sources

1. In house equipment asset management expert on firm to handle RV work
2. Hire third-party asset management firm as needed
3. Develop or purchase an RV matrix
4. Build a trade data library:
 - a) Asset database (internal)
 - b) Blue Book Guides
 - c) Subscribe to valuation source guides and trade journals
 - d) Purchase industry white papers



Alta Agricultural Tractor Database

Type	Drive	Make	Model	Mfr Yr	Family	Hp	MSRP	RCN	S/N	Use_Hrs	Cond.	Price	Sale Type	Sale Date	Sale Yr	Sale Age	Location	Source
175 HP Or Greater	4WD	Case IH	STX380	2007	CIH Steiger 385	380	\$213,728	\$250,773	Z7F105829	1,050	--	\$175,000	Asking	Oct-10	2010	3	IN	tractorhouse.com
175 HP Or Greater	4WD	Case IH	STX380	2007	CIH Steiger 385	380	\$213,728	\$250,773	Z7F106117	1,930	F	\$159,000	Asking	Oct-10	2010	3	MN	fastline.com
175 HP Or Greater	4WD	Case IH	STX380	2007	CIH Steiger 385	380	\$213,728	\$250,773	Z7F106161	539			Asking	Oct-10	2010	3	IA	fastline.com
175 HP Or Greater	4WD	Case IH	STX380	2007	CIH Steiger 385	380	\$213,728	\$250,773	Z7F106224				Asking	Oct-10	2010	3	IN	tractorhouse.com
175 HP Or Greater	--	Case IH	STX380	2007	CIH Steiger 385	380	\$213,728	\$250,773	Z7F106262				Asking	Oct-10	2010	3	TX	equipmentlocator.com
175 HP Or Greater	4WD	Case IH	STX380	2008	CIH Steiger 385	380	\$215,816	\$250,773	Z7F106224			\$119,900	Asking	Dec-10	2010	2	IA	tractorhouse.com
175 HP Or Greater	4WD	Case IH	STX385	2009	CIH Steiger 385	385	\$237,487	\$237,487	Z7F106224			\$155,000	Auction	Dec-09	2009	0	MN	machinerypete
100 HP to 174 HP	MFWD	John Deere	7330	2007	JD 7330	125	\$98,601	\$86,580	RW7330K001461		--	\$99,900	Asking	Oct-10	2010	3	ND	fastline.com
100 HP to 174 HP	MFWD	John Deere	7330	2007	JD 7330	125	\$98,601	\$86,580	RW7330K001461	304	--	\$85,000	Asking	Oct-10	2010	3	KS	tractorhouse.com
100 HP to 174 HP	MFWD	John Deere	7330	2007	JD 7330	125	\$98,601	\$86,580	RW7330K001461	48	105	\$83,500	Asking	Oct-10	2010	3	AL	fastline.com
100 HP to 174 HP	MFD	John Deere	7330	2007	JD 7330	125	\$98,601	\$86,580	RW7330K001461	1,257	--	\$82,500	Asking	Oct-10	2010	3	PA	equipmentlocator.com
100 HP to 174 HP	MFWD	John Deere	7330	2007	JD 7330	125	\$98,601	\$86,580	RW7330K001461	1,257		\$82,500	Asking	Dec-10	2010	3	PA	tractorhouse.com
100 HP to 174 HP	MFWD	John Deere	7330	2007	JD 7330	125	\$98,601	\$86,580	RW7330K001895		E	\$107,500	Asking	Oct-10	2010	3	IA	fastline.com
100 HP to 174 HP	MFWD	John Deere	7330	2007	JD 7330	125	\$98,601	\$86,580	RW7330H002010	967	--	\$75,000	Asking	Oct-10	2010	3	GA	fastline.com
100 HP to 174 HP	MFWD	John Deere	7330	2007	JD 7330	125	\$98,601	\$86,580	RW7330K002058	1,250		\$78,900	Asking	Dec-10	2010	3	MN	tractorhouse.com
100 HP to 174 HP	MFWD	John Deere	7330	2007	JD 7330	125	\$98,601	\$86,580	RW7330H004101	498	--	\$92,000	Asking	Oct-10	2010	3	IL	tractorhouse.com
100 HP to 174 HP	--	John Deere	7330	2007	JD 7330	125	\$93,101	\$81,080	RW7330K004244	2,331	--	\$89,900	Asking	Oct-10	2010	3	MN	fastline.com
100 HP to 174 HP	MFWD	John Deere	7330	2007	JD 7330	125	\$98,601	\$86,580	RW7330K004303	754	--	\$91,900	Asking	Oct-10	2010	3	OH	fastline.com
100 HP to 174 HP	MFWD	John Deere	7330	2007	JD 7330	152	\$98,601	\$86,580	RW7730D006095	1,249		\$100,500	Asking	Dec-10	2010	3	KS	tractorhouse.com
Tractors - 100 HP to 174 HP	2WD	John Deere	7330	2008	JD 7330	125	\$72,686	\$81,080	RW7330H005753	969	--	\$46,000	Auction	Oct-10	2010	2	TX	tractorhouse.com

SAMPLE

DATA SOURCES

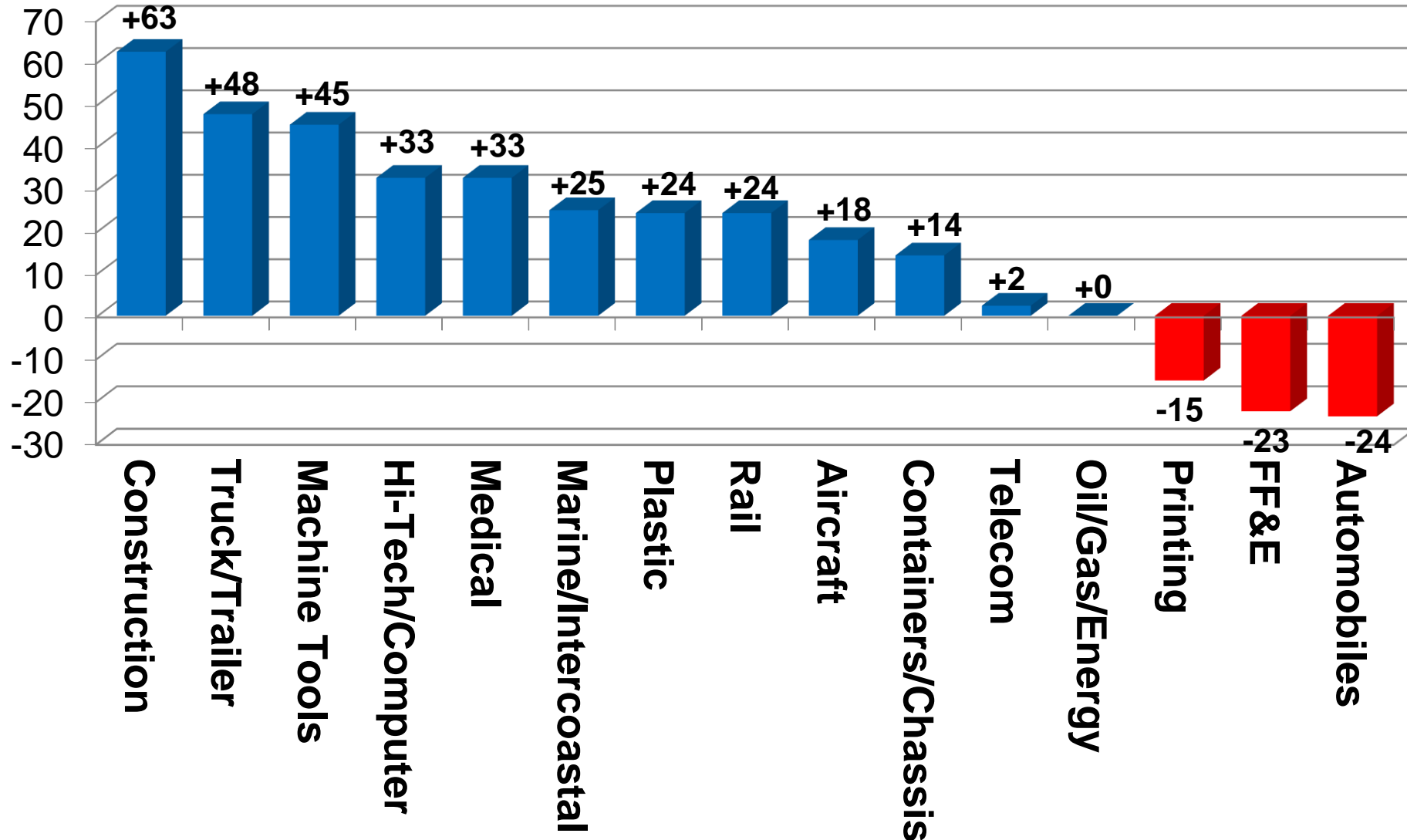
	Auction	Blue Books	Asking Prices
Agriculture	tractorhouse	Tractor Blue Book	tractorhouse
	Last Bid	Hotline Farm Equipment Guide	mascus
	Machinery Pete	Farm Equipment IronGuides	fastline
Auto-mobiles	Leake Auction Company	Auto Red Book	carsforsale
	Auto Auction Mall	TrueCar	autotrader
			cars.com
Machine Tools	dateref		machinetools.com
			machinio
			kitmondo
Truck/Trailer	truckpaper	Truck Blue Book	truckpaper
	Richie Bros	Trailer Blue Book	trailershopper
	rockanddirt	usedequipmentguide	commercialtrucktrader
Chemical Processing	bid-on-equipment		bid-on-equipment
	dateref		HGR industrial surplus
			kitmondo
Construction	machinerytrader	Green Guide	machinerytrader
	Richie Bros	usedequipmentguide	catused
	ironplanet		rockanddirt

E. U.S. Equipment Outlook, such as our ***What's Hot / What's Not in Equipment Leasing*** survey for 2019. Shows the 5 top equipment types are, in order: **Construction** – No. 1 for the 6th year in a row; followed by **Truck/Trailer**; **Machine Tools**; **Medical**; and **HiTech/Computer** equipment. The bottom 5 (of 15 total) were, in order, **Telecommunications**; **Automobiles**; **FF&E (furniture)**; **Oil/Gas/Energy**; and in last place, as usual, **Printing**.

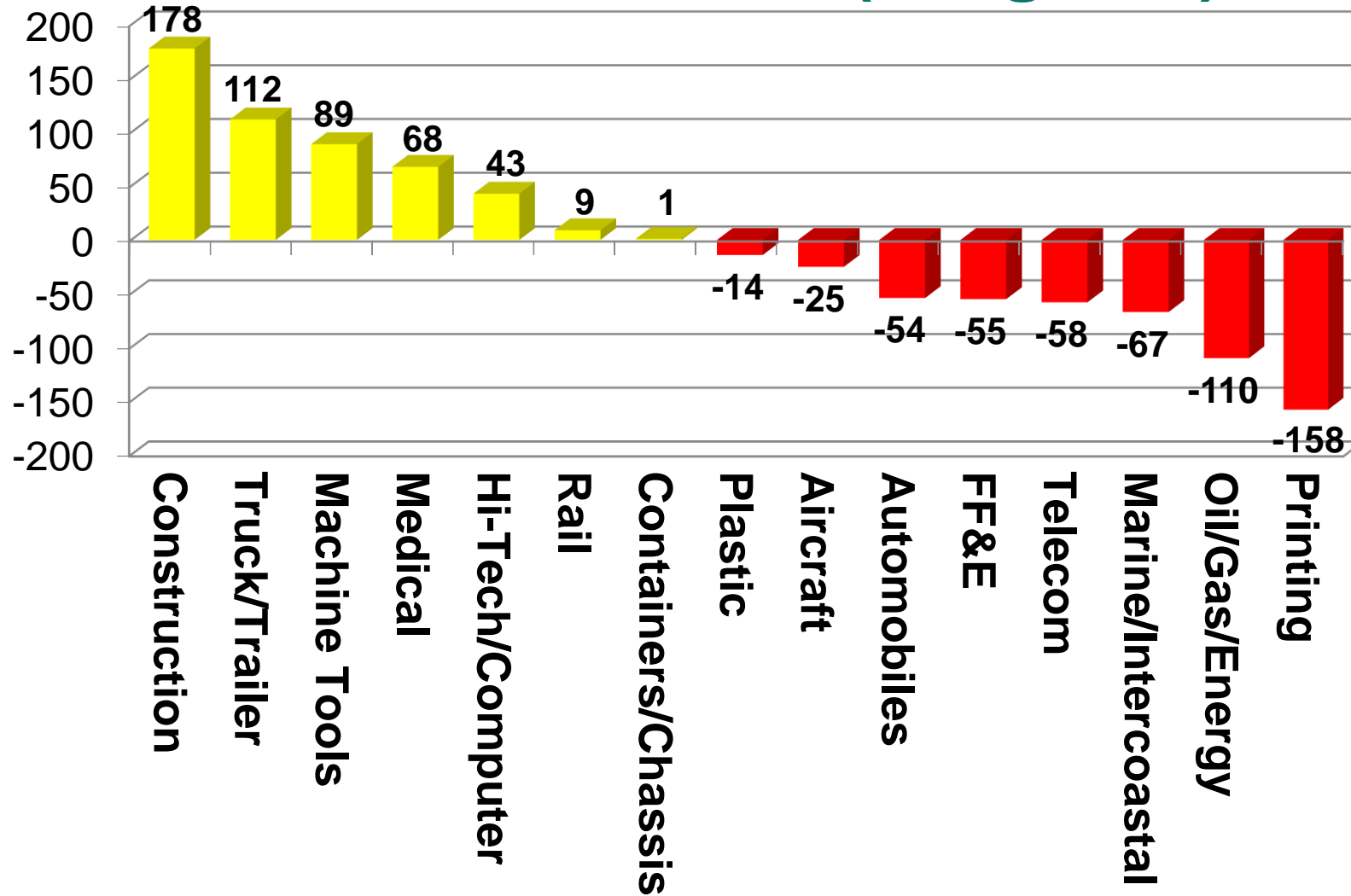
*What's **Hot** /
What's **Not** in
Equipment Leasing
for 2019*

I.

UNWEIGHTED FUTURE OPPORTUNITIES RANKING BEST (+) AND WORST (-) BY EQUIPMENT TYPE

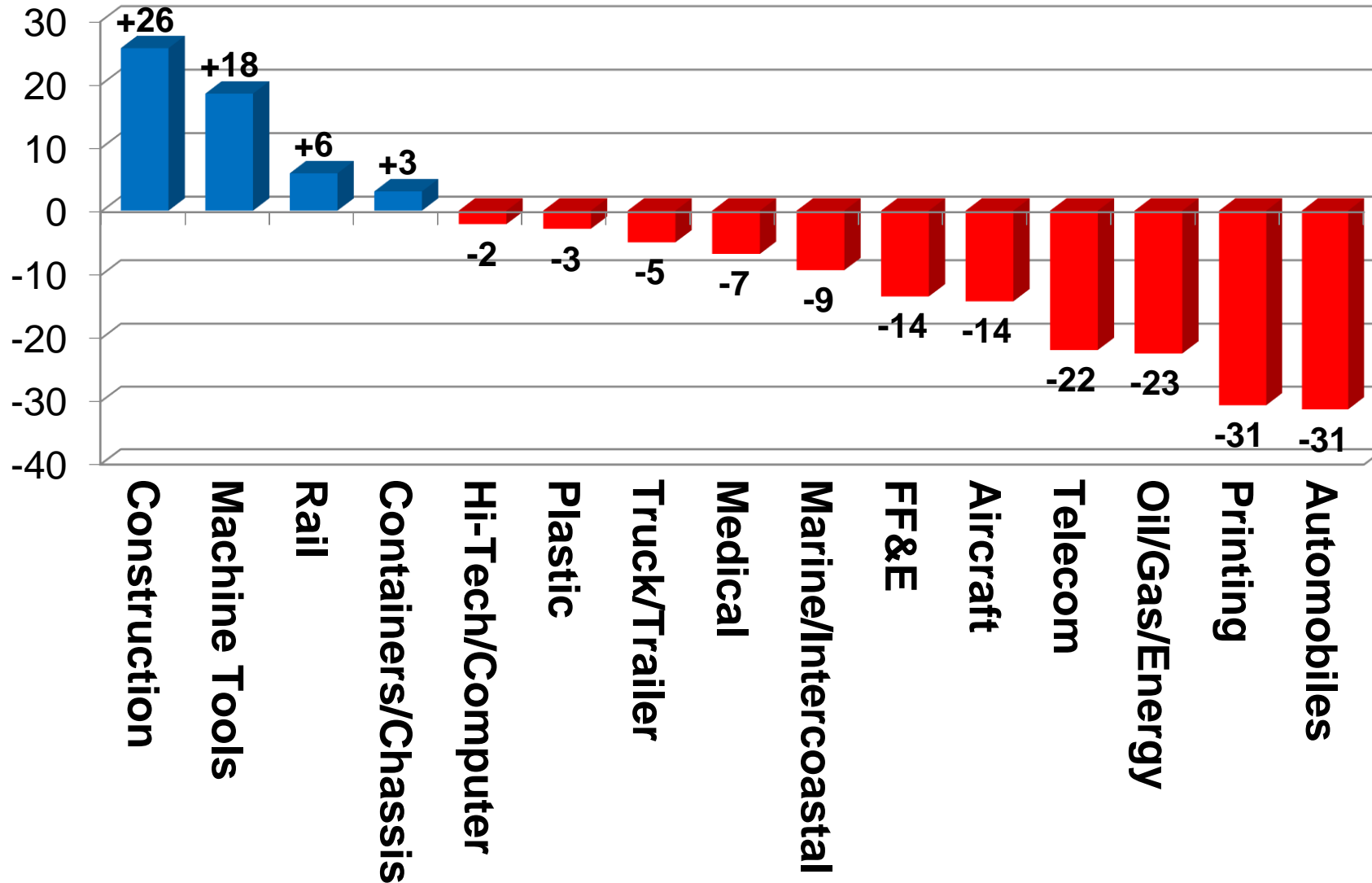


II. FUTURE LEASING BUSINESS VOLUME BY EQUIPMENT TYPE (Weighted)



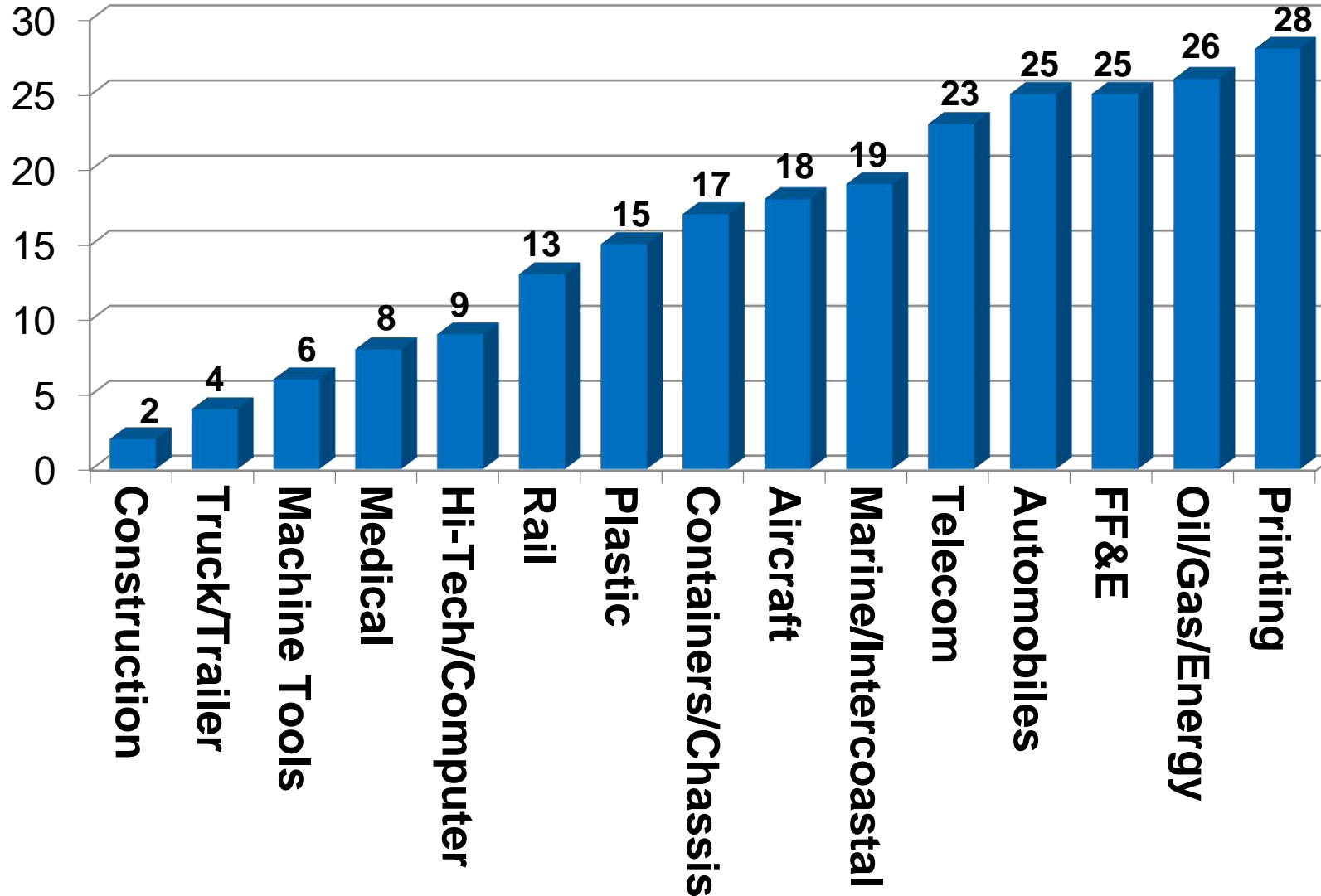
III.

CHANGES IN RESIDUAL POSITIONS BY EQUIPMENT TYPE (+ increase / - decrease)



IV.

FINAL OVERALL SCORE AND RANKING LOWEST SCORE BEING THE BEST



Equipment Survey Results: 2019 versus 2018

OVERALL RANKING SCORES

Equipment Type	2019 Score	2018 Score	Difference
CONSTRUCTION	2	2	+0
TRUCK/TRAILER	4	5	+1
MACHINE TOOLS	6	5	-1
MEDICAL	8	11	+3
HI TECH/COMPUTER	9	11	+2
RAIL	13	15	+2
PLASTICS	15	15	0
CONTAINERS/CHASSIS	17	11	-6
AIRCRAFT	18	17	-1
MARINE/INTERCOASTAL	19	27	+8
TELECOM	23	27	+4
AUTOMOBILES	25	24	-1
FF&E	25	20	-5
OIL/GAS/ENERGY	26	19	-7
PRINTING	28	30	+2

V. Equipment Market Conditions and Outlooks: U.S. Leasing Market Size

- ▶ A. Total amount equipment and software purchased (x 1.0 Billion)

Year	Total	Total Financed	Est. Amt Leased
2019	\$1,866 est.	\$1,067 est.	\$507 forecast
2018	\$1,817 prelim.	\$1,052 prelim.	\$500 prelim.
2017	\$1,697	\$1,012	\$480

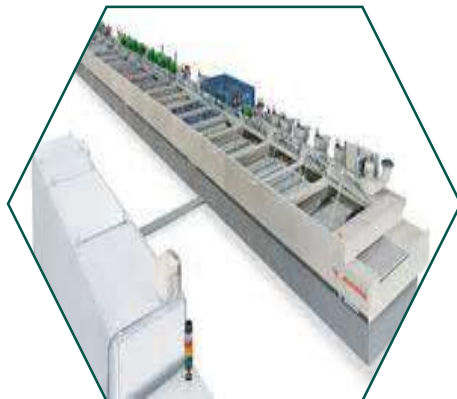
B. Leasing penetration rate = 48% of amount financed

C. Top penetration rates (2017) [Lessor survey]

1.	Copiers	78.9%	High penetration, small ticket / vendor oriented
2.	Construction	32.7%	High captive leasing and small ticket sector
3.	Rail	32.3%	High direct leasing, large ticket sector
4.	Marine	31.6%	High direct leasing, large ticket sector
5.	Agriculture	26.6%	High captive leasing, small ticket sector
6.	Aircraft	18.9%	High large ticket sector



Equipment Overviews & Outlooks



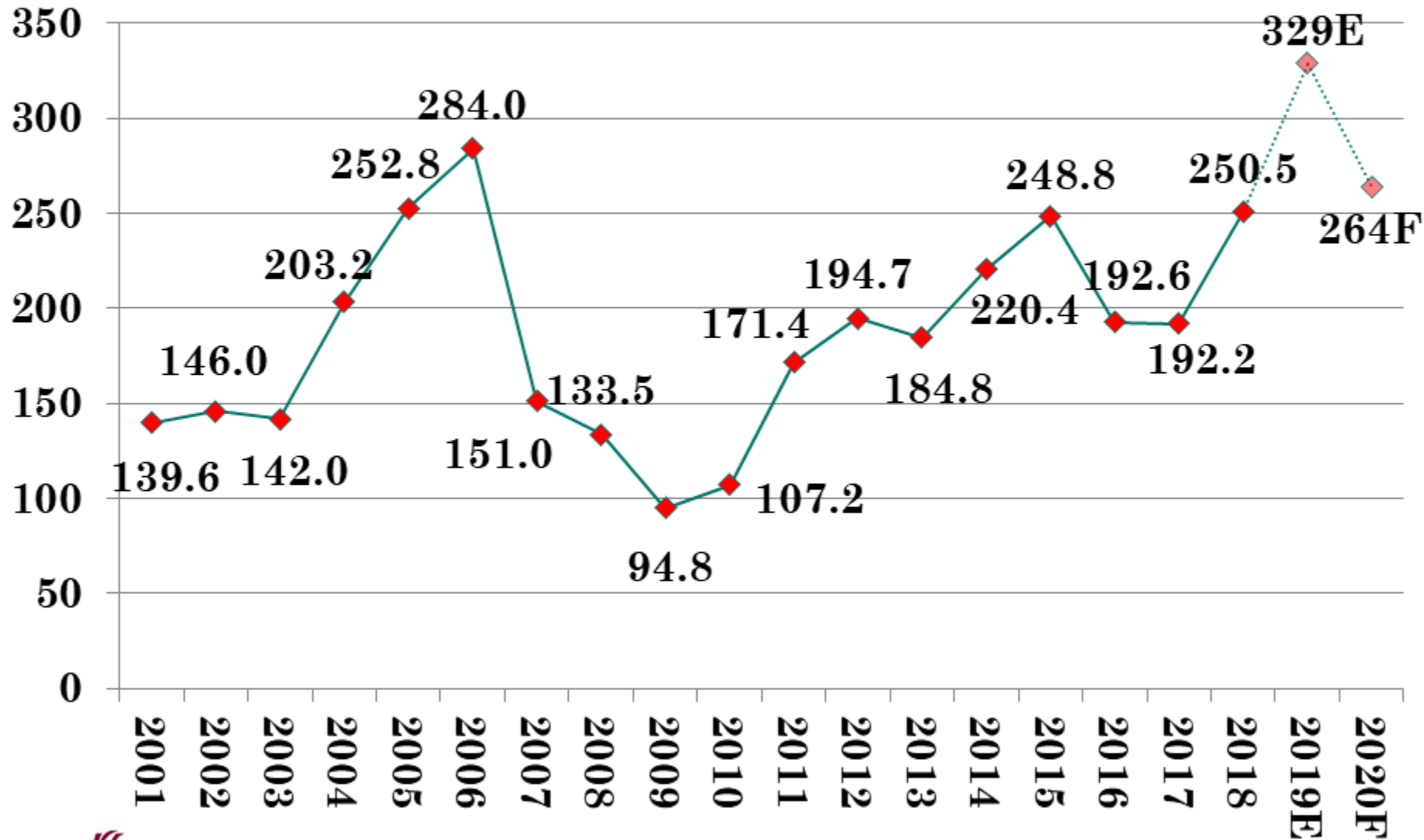
TRUCKS / TRAILERS:



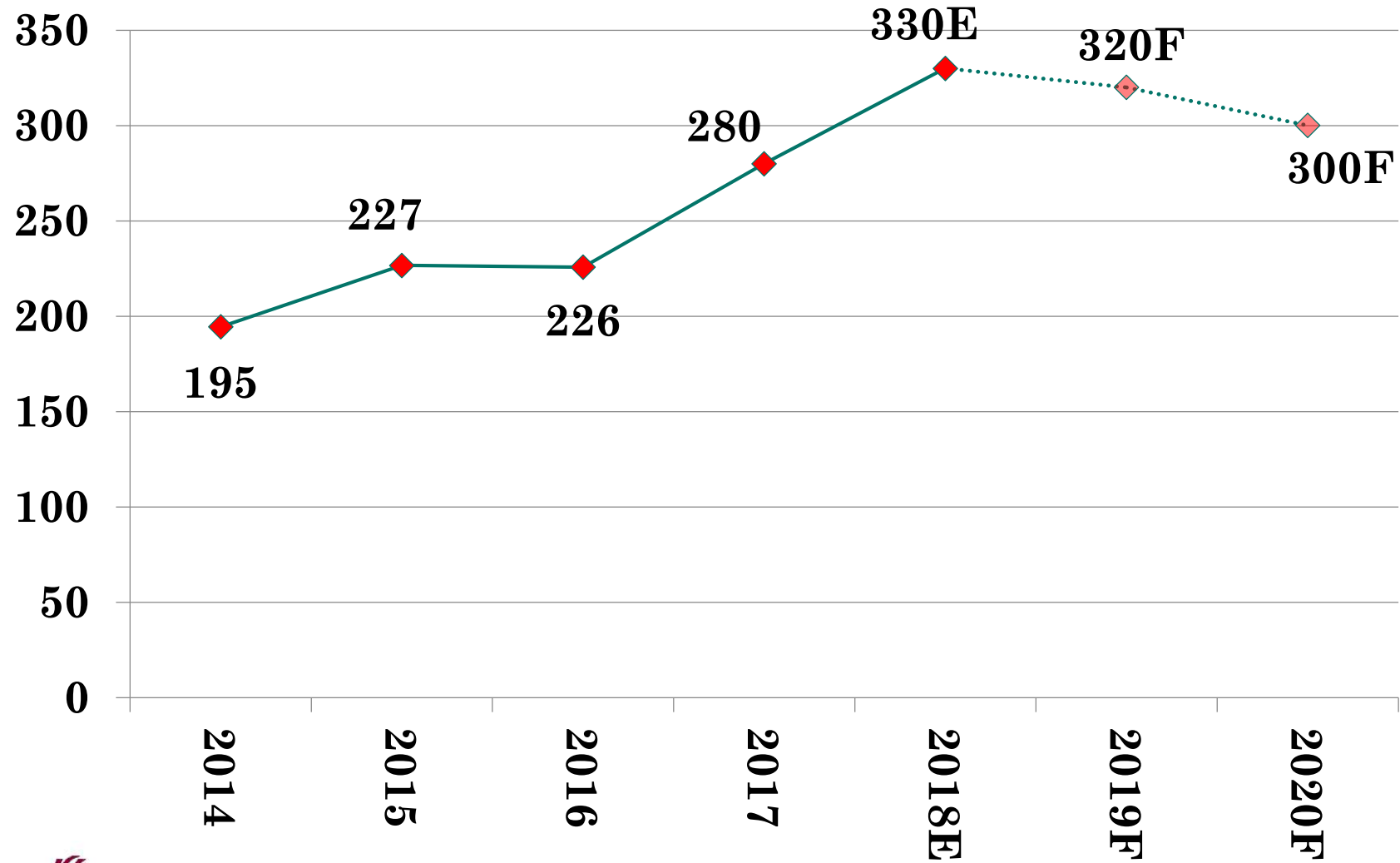
TRUCKS / TRAILERS:

- 🚛 Trucks – The U.S. has experienced very high demand for Class 8 (heavy) trucks the past 2 years. In 2018, U.S. Class 8 retail sales totaled an estimated 250,500. In 2019, U.S. Class 8 sales are forecast to be 329,000 units, and 264,000 units in 2020.
- 🚛 2019 YTD used Class 8 retail prices are up +12.3%, while average auction prices have increased by 2.5%.
- 🚛 In 2018, U.S. Class 8 truck manufacturers were operating at 95% to 100% capacity producing 2019 models. Order backlogs have manufacturers currently operating at 90% capacity.
- 🚛 Top brands in order: Freightliner; Kenworth; Peterbilt; and International.
- 🚛 Trailers – In U.S., new trailers have been in very high demand since 2017. U.S. trailer sales in 2017 totaled 280,000 units and an estimated 330,000 units in 2018. For 2019, U.S. trailer sales are forecast to be 320,000 units, and 300,000 units in 2020.
- 🚛 Outlook remains positive. Biggest problem – hiring new drivers.

NORTH AMERICAN CLASS 8 TRUCK SALES (IN THOUSANDS)



US TRAILER SALES (IN THOUSANDS)



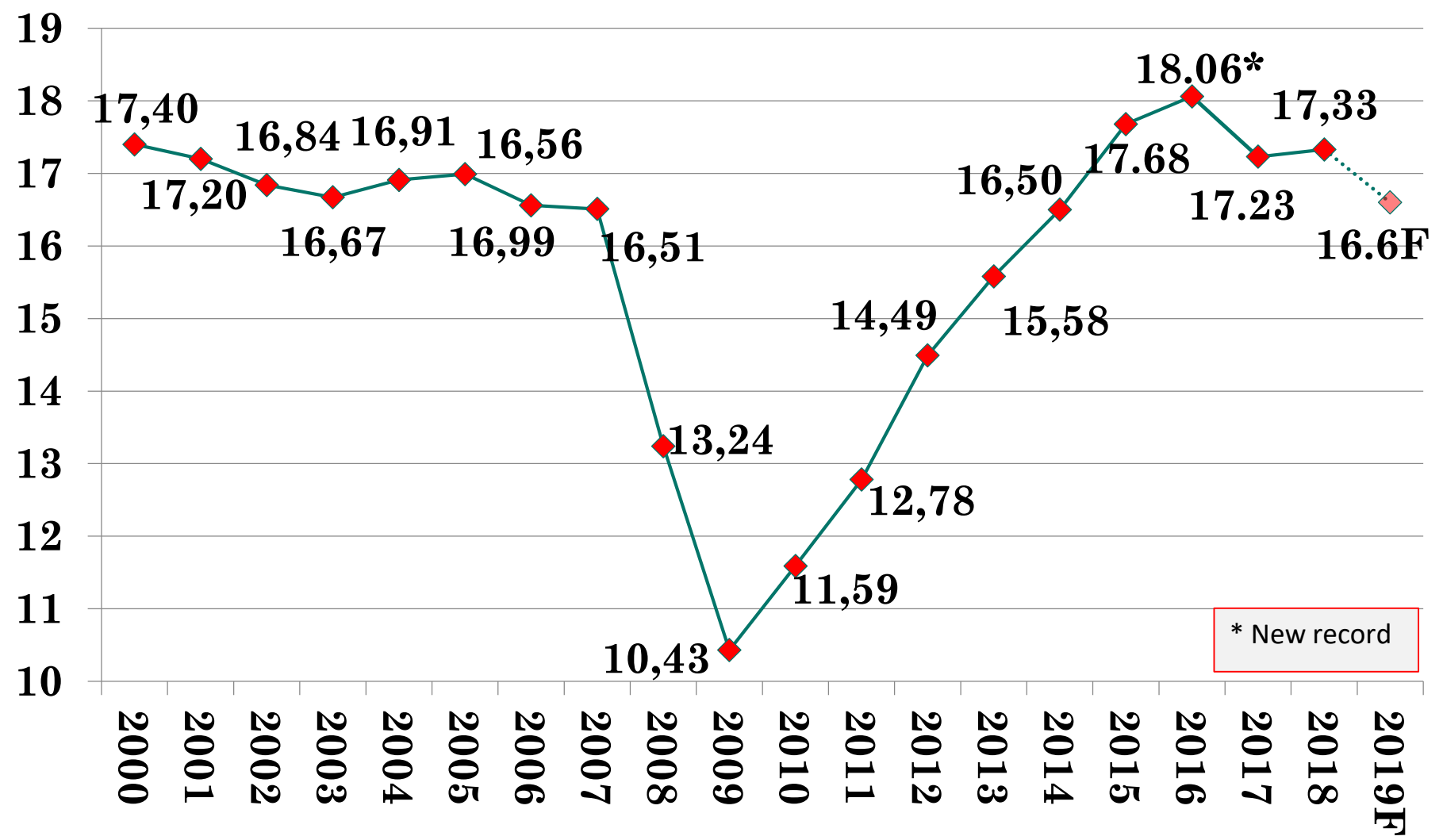
AUTOMOTIVE:



AUTOMOTIVE:

- 🚗 2018 defied early predictions that auto sales would finally fall below 17 million after peaking in 2016 with 18.06 million, but sales actually increased +0.5% from 2017 to 17.33 million.
- 🚗 2019 sales are again forecast to fall below the 17 million mark, as industry experts predict a 4% fall in total sales to 16.6 million. As of the end of June, new car sales down -2.45%
- 🚗 Consumers continue to move towards the light-truck segment, which accounted for 69% of sales in 2018. Top sellers were the Ford F series (909,330), Chevrolet Silverado (585,581), and Toyota RVA4 (427,170). The total number of passenger cars sold plunged by 12% to their lowest level in 60 years.
- 🚗 YTD used automobile prices for 2019 are up by 1.7%, while wholesale / auction prices have increased by 1.4%.
- 🚗 In terms of market share, GM (17.0%) remains at the top followed by Ford (14.3%), Toyota (14.0%), and Fiat Chrysler (12.9%).
- 🚗 Lease penetration rates remained in the 31% range of all financings.

NORTH AMERICAN LIGHT VEHICLE SALES (IN MILLIONS)



* New record

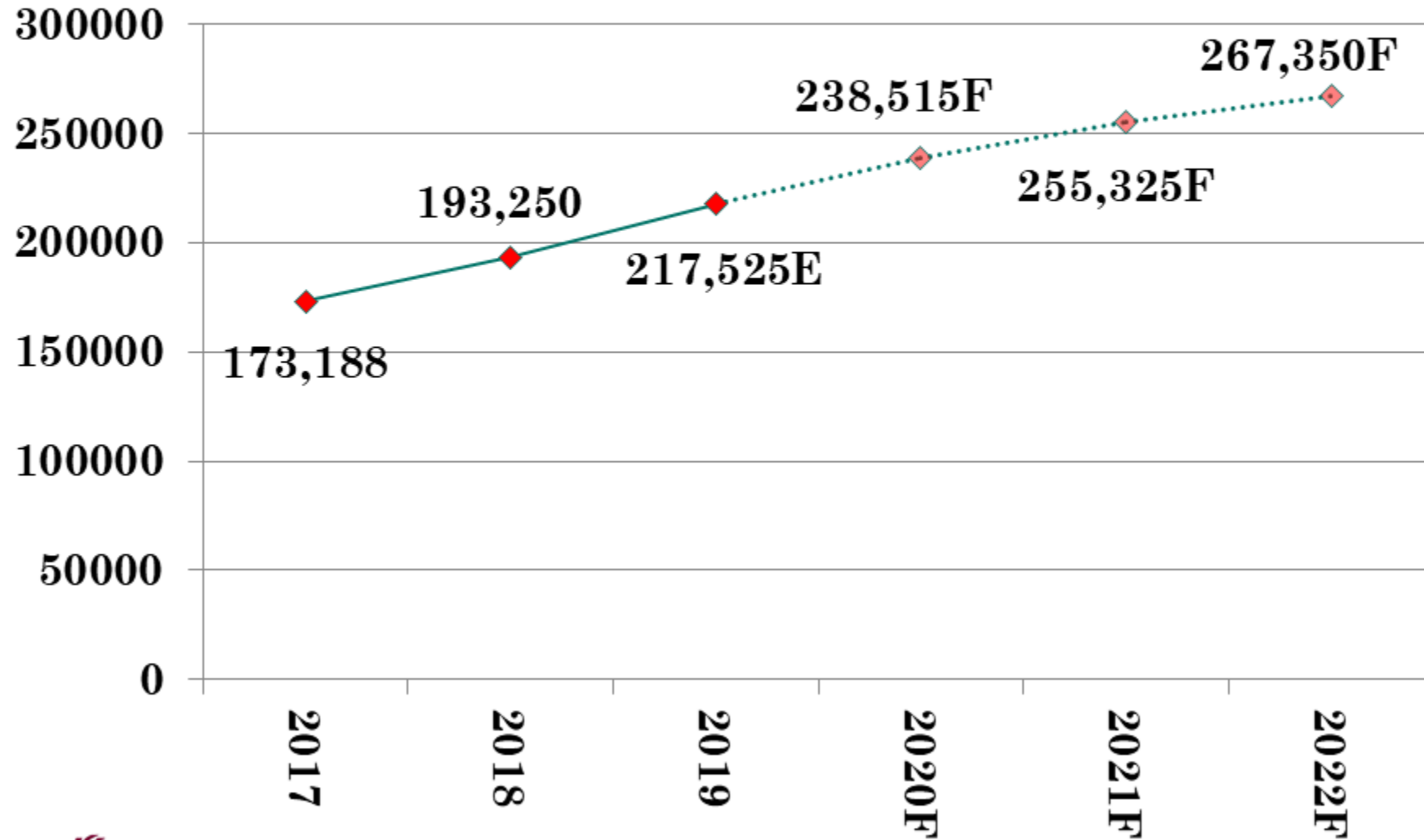
CONSTRUCTION:



CONSTRUCTION:

- 🏠 In U.S., 2018 construction equipment unit-sales increased overall by 11.6%. Prices increased by 6%.
- 🏠 New 2019 construction equipment unit-sales are expected to increase nearly 12%.
- 🏠 YTD used construction equipment prices have increased by approx. 5% retail, and 12% auction.
- 🏠 Equipment rental will continue to grow in popularity.
- 🏠 Leading brands are: Caterpillar; Komatsu; Hitachi; Volvo; Sany; Deere; etc.
- 🏠 Usual difference between average dealer advertised price and auction is about 65%-75%.

PROJECTED NA CONSTRUCTION EQUIPMENT UNIT SALES



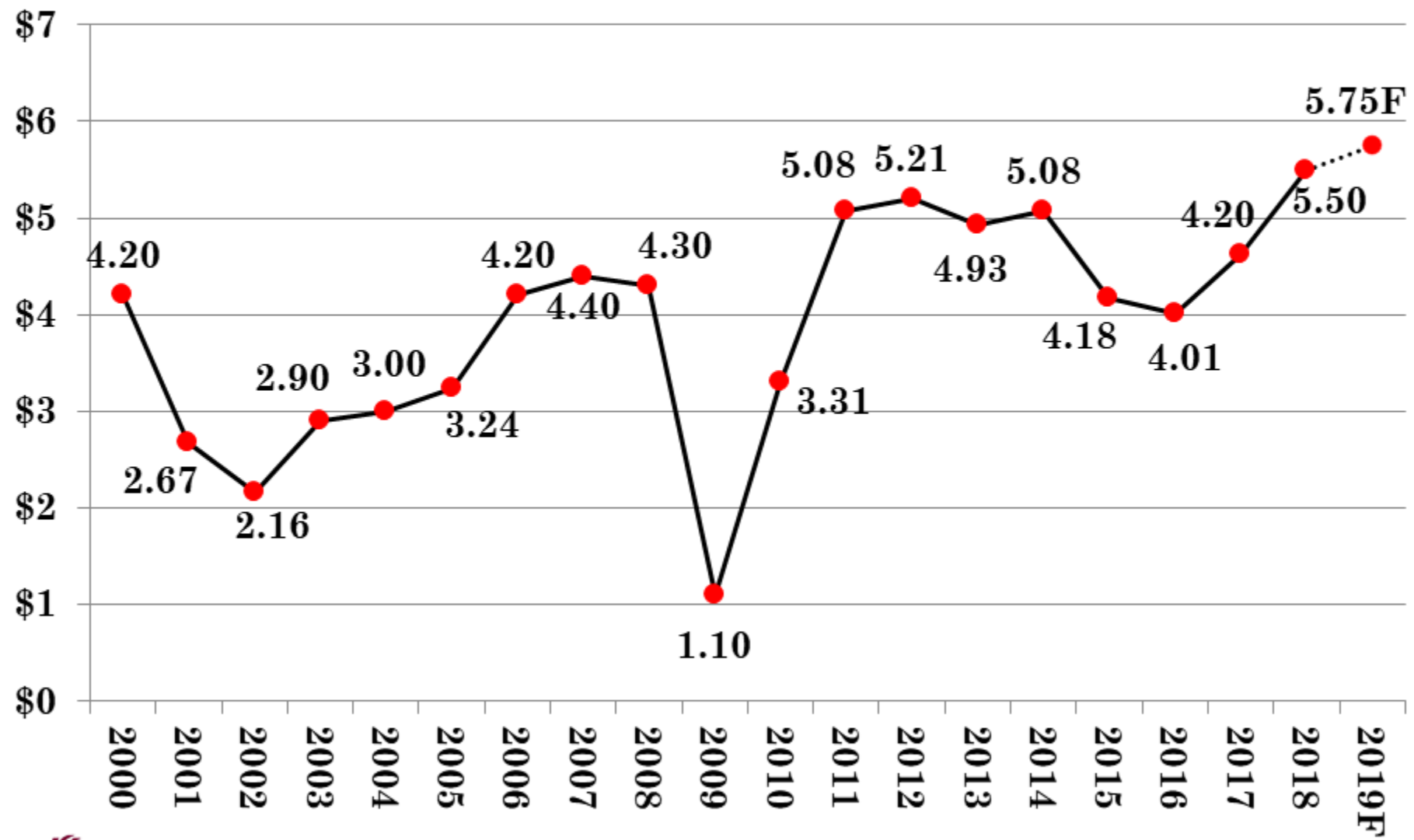
MACHINE TOOLS:



MACHINE TOOLS:

- * For 2018, U. S. machine tool orders increased by 31% to an historic high of \$5.5 billion.
- * YTD machine tool orders increased by 5.2%.
- * Machine tool utilization is expected to remain at or above 84% through this year, well above the long term average of 77.3%.
- * In 2019 a Chinese machine tool company, Shenyang, continued to outsell all other machine tool companies in the world. Other top companies include: Trumpf; DMG Mori; Yamazaki Mazak; DMTG; Amada; Komatsu; JTEKT (formerly Toyoda); Okuma; Schuler; and Makino.
- * For new machine tools, hot sellers include CNC lathes and turning centers with 15+ inch chucks, horizontal machining centers with 500 to 630mm pallets are also hot, and most vertical machining centers (40 x 20 and larger). [See representative spending by equipment type slide.]
- * According to Gardner Publications, the average machine tool price was \$182,000 (2017): ideal for small to middle ticket lessors.

US MACHINE TOOL ORDERS (IN \$BILLION)



USED MACHINE TOOL SALES

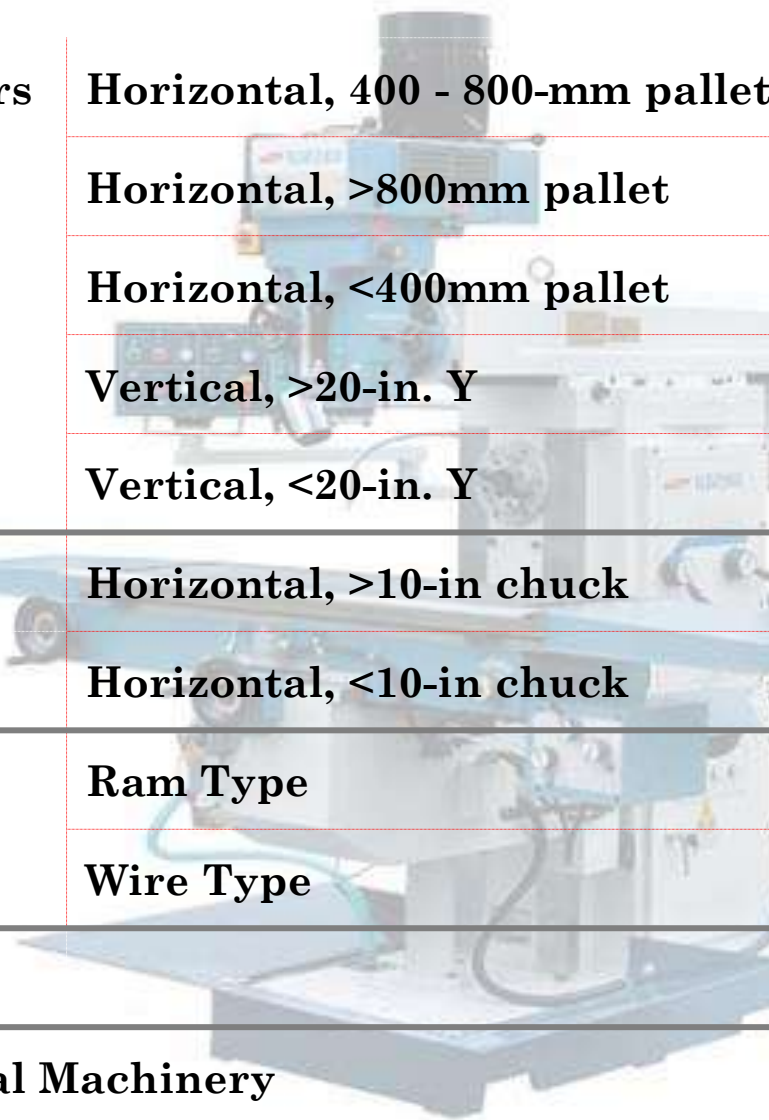
5 yr old Haas VMC

	<u>Auction Price</u>	<u>Change from '09</u>
2009	\$28,000	<i>Great Recession</i>
2010	\$47,000	+68%
2011	\$50,000	+79%
2012	\$41,000	+46%
2013	\$52,000	+86%
2014	\$54,000	+93%
2019	\$56,500	+102%



MACHINE TOOLS

Spending by Equipment Type, \$Mil



Machining Centers	Horizontal, 400 - 800-mm pallet	\$790
	Horizontal, >800mm pallet	709
	Horizontal, <400mm pallet	495
	Vertical, >20-in. Y	604
	Vertical, <20-in. Y	551
Turning Centers	Horizontal, >10-in chuck	465
	Horizontal, <10-in chuck	566
EDM	Ram Type	36
	Wire Type	79
Laser Cutting		58
Transfer & Special Machinery		115

PETROLEUM / CHEMICAL PROCESSING



PETROLEUM / CHEMICAL PROCESSING

- Oil – The U.S. has high demand for heavy crude. Supply is tight. Venezuelan production was 2.4 million BPD in 2015, 1.34 million BPD at end of 2018, and presently 720,000 BPD (-70%).
- In U.S., approximately 958 oil & gas drilling rigs in use this year versus 1,054 last year – a reduction of 96 rigs (-9.1%).
- Natural gas compressors are in good demand, with prices holding steady (450-hp – 2,500-hp).
- Drilling rigs – falling demand, values have declined by 15%; most desirable rigs have 10,000-ft to 20,000-ft drill depths.
- U.S. specialty chemical volumes have increased by approx. 2% over the past year. Utilization rate: 89%.



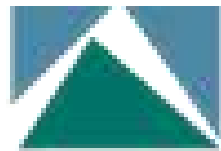
AGRICULTURAL:



AGRICULTURAL:

- ✦ The agricultural sector is under pressure this year due to global trade conditions and weather.
- ✦ New 2WD 100+ hp tractor sales are forecast to increase by 4% this year, 1% for 40-99 hp, and around 8% for <40 hp sales.
- ✦ New 4WD farm tractor sales are expected to increase by about 20% for the year.
- ✦ Sales of new self-propelled combines are expected to increase by about 10%.
- ✦ However, sales volume of used agricultural equipment on the retail market has thus far fallen by about 30% YoY, and by about 50% on the auction market.
- ✦ Used retail sales prices have remained steady for the past year, while auction prices have increased by around 15%. This does not include combines, whose prices have fallen by about 10%.
- ✦ Farm debt in the U.S. has risen to \$427 billion, close to the amount that preceded the 1980s agricultural crash. However, the collateral land values have remained high at just under \$10,000/acre.
- ✦ Leading brands are: John Deere; Case IH; AGCO, etc.
- ✦ Usual difference between the average dealer advertised price and auction is about 75%.





The Alta Group™

THANK YOU



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