

EMSc Asia Pacific

ENERGY EFFICIENCY FINANCE

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FINANCIAL LEASE

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Financial Lease

Overview

Financial Lease is a form of equipment financing, that enables companies to acquire capital assets for business use, without the need for capital outlay.

Key concepts

The financier leases the equipment to the client for an agreed timeframe in return for a series of periodic payments which can be structured to suit the company's cash flow.

For tax purposes, the lease is usually considered a "conditional sales contract". A lease agreement sets out the desired term of the lease, the negotiated periodic repayments and the residual value of the leased equipment. Providing the equipment is used to produce assessable income, the lease payments are usually tax-deductible.

In some cases, existing capital assets can also be financed in this way.

This funding method suits the finance requirements of most private companies and is also used by many public companies.

Key terms

Item	Description
Term	Generally five years, although longer terms may be negotiated
Payment options	Usually fixed payments made monthly; but quarterly, semi-annually, or annually, may be arranged to suit the client's cash flow. Irregular repayments are also possible. A residual at the end of the contract is a mandatory feature of a finance lease. Payments are made by direct debit.
Deposit	Ordinarily a deposit payable to the supplier may be provided for under the finance agreement
Collateral	Usually, the asset being purchased provides the sole security. In some cases a guarantee may be required depending upon the applicant's credit worthiness.
At Term	When the lease expires, the lessee may purchase the equipment, or refinance the residual value for a specified term; subject to the financier approval.

The Financial Lease is an on-balance sheet financing solution.

Other options

Item	Description
Installation cost	Where installation cost is included in the quotation from the distributor The full amount of installation costs will be included in the rental / lease arrangement
Scheduled maintenance	An operating lease is similar to the rental / lease and can include scheduled maintenance costs With the operating lease a scheduled maintenance / service contract is included over the term The annual (or other periodic) service fees are added into the customer payment schedule and contract
Deposit	In many industries it is usual for the distributor to require a deposit of 10-30% upfront on placement of an order In most cases once the financing agreement has been executed with the customer, a deposit may be released to the distributor

Summary terms

EMSCAP offers the Lease model with these advantages:

- Ownership during term by Client
- Fixed term
- Guaranteed minimum performance
- No maintenance cost charges

Case Study Example

Powerstar LV Max installation at a site

Key points for Lease

1. **Proposal is guaranteed Positive Cash Flow throughout the term**
2. **Penalties for reduced Energy Savings**
3. 100% Energy Savings Guarantee exceeds the annual cost of Lease
4. 15 year factory warranty provides certainty of operations and equipment performance post term
5. Verification based on EVO IPMVP international gold standard

