

# EMSc Asia Pacific

## ENERGY EFFICIENCY FINANCE

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### RENTAL

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## Energy Efficiency Financing

### Rental / Operating Lease

#### Overview

**Rental (or Operating 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 acquires the equipment and provides it 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 operating lease is usually considered a "rental contract". A rental agreement sets out the desired term of the agreement and the negotiated periodic rental payment. Providing the equipment is used to produce assessable income, the rental payments are usually tax-deductible.

At the term of the agreement, the equipment is returned to the financier. Usually, an offer to acquire the equipment may be made by the customer, or alternatively the rental agreement may be extended.

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

#### Key terms

Item	Description
<b>Term</b>	Generally five to seven years, although longer terms may be negotiated
<b>Payment options</b>	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. Payments are made by direct debit.
<b>Deposit</b>	Ordinarily a deposit payable to the supplier may be provided for under the finance agreement
<b>Collateral</b>	In some cases a guarantee may be required depending upon the applicant's credit worthiness.
<b>At Term</b>	When the rental agreement expires, the customer may make an offer to purchase the equipment, or extend the term of the rental agreement; otherwise the equipment will be removed.
<b>Balance sheet treatment</b>	The Operating Lease has traditionally been an off-balance sheet financing solution. However, with the pending changes to the accounting standards, Operating Leases will be deemed an on-balance sheet financing solution.

Item	Description
<b>Installation cost</b>	Where installation cost is included in the quotation from the distributor The full amount of installation costs will be included in the rental arrangement
<b>Scheduled maintenance</b>	An operating lease 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
<b>Deposit</b>	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 rental model with these advantages:

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

**Case Study Example**

Powerstar LV Max installation at a site

**Key points for Rental**

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

