



The Alta Group <sup>SM</sup>



Global Experience Provides Direction for Equipment Leasing and Asset Finance

*Through collective knowledge and experience, The Alta Group provides value for its clients in the global equipment leasing and finance industry in outcomes that increase revenue, control expenditures, and improve productivity and profitability.*

# Alta Vantage Points

First Quarter 2011

## M&A Outlook 2011

Selling an Equipment Leasing Business: Improving Prospects Linked to Advance Preparation



*By Bruce Kropschot  
Senior Managing Director,  
Mergers and Acquisitions*

As the economy continues to slowly recover in 2011, the prospects for M&A activity in our industry appear the brightest in quite a while.

**Bruce Kropschot**

However, after assisting in the sale of hundreds of equipment leasing businesses over the years, it still amazes us how many owners decide to sell without much

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## News Briefs

### The Alta Group adds four industry experts to its team

The Alta Group has added four noted industry experts to its team: Managing Director Paul Frechette, Director Valerie Gerard and Consultants Jim Billings and Charles (Chuck) Thomas.

planning for such a major event. This is especially true among independent leasing companies owned by the entrepreneurs who built the company. Sooner or later, these owners will decide to sell, often to provide personal liquidity or, more importantly in recent years, to also infuse much needed growth capital into the business.

The capital markets crisis of recent years - resulting in funding constraints for many smaller leasing entities - has made selling a more attractive option, too, compared to the alternatives of severely cutting originations or simply going out-of-business.

Leasing companies with corporate owners are often sold when their parent companies change their business priorities, often to refocus on core operations. Companies with financial problems frequently sell their leasing units because they are easier to convert to cash at a fair price than other business units. Sometimes, a company decides to divest its leasing business because the return on invested capital does not meet corporate objectives.

Whatever the reason, it is important for the owner to be prepared for the possibility of a sale of a leasing business. In planning for such an eventuality as part of a company's strategic planning process, one may be able to optimize the timing of the sale. Flexibility is key to maximizing the value of a business, versus being forced to make a quick sale for personal or business reasons.

The following are suggestions, culled from our experiences, for lessors to maximize the interest of potential acquirers, no matter what the timetable:

**Strengthen the management team, if necessary** - Much of the premium the buyer pays is for management expertise. This includes both the quality and depth of the management team, including individuals identified to potentially succeed the CEO. There is a wealth of leasing talent that can be tapped in today's difficult job market.

**Sustain a stable growth pattern, if possible** - Higher selling prices are more likely to be paid for companies having steady growth, as compared to companies having a rollercoaster pattern of earnings and originations. However, with most leasing companies experiencing declining originations and rising bad debts during the past two years, one with only a small decline in originations and profitability could be more attractive on a relative basis. When advising sellers, we seek to explain the past but sell the future; thus new vendor programs and other new business opportunities can sometimes offset recent unfavorable results.

**Become an expert** - Equipment leasing companies that specialize in a few market niches and serve them well typically attract a greater range of prospective acquirers and sell for a higher premium than those that are considered generalists. Those that provide value-added services are even more attractive.



**Paul Frechette**  
Managing Director,  
Vendor and Captive  
Finance

Frechette is leading The Alta Group's vendor and captive finance practice. He has worked in the equipment leasing and commercial finance industries for more than three decades, with deep expertise in building and managing such finance programs in North America and globally.

Prior to joining Alta, he was executive vice president at EverBank Commercial Finance (formerly Tygris Commercial Finance), responsible for its vendor finance business. Frechette also was a corporate executive with Sun Microsystems, where he was responsible for the strategic direction and overall management of the company's global captive finance business. He held management positions at Key Equipment Finance, Heller Financial, Fleet Credit and U.S. Leasing International, as well.



**Valerie Gerard**

**Build a strong lease-servicing capability** - From an acquirer's perspective, the more capabilities a leasing company has in-house, the more valuable it will be.

**Develop good systems for preparing financial statements and management reports** - The seller's credibility with potential suitors during the due diligence process can be heavily influenced by the quality of the company's accounting personnel and the sophistication of its management reporting processes.

**Use preferred accounting methods; be conservative** - As part of the due diligence process, most prospective buyers will uncover aggressive accounting practices in areas such as bad debt reserves and residual valuations. So, do not use assumptions that are hard to justify.

**Prepare detailed annual and long-range projections** - Needless to say, it is difficult to get where you want to go without a road map.

**Retain advisors with industry expertise** - It is important for a leasing company's legal and accounting advisors to be up-to-date on matters impacting the leasing business. Similarly, a merger and acquisition advisor who has experience selling leasing companies can provide a more educated indication of a company's probable market value. A qualified M&A advisor can recommend a deal structure that provides the best fit for the owner's needs. Also, an advisor with leasing experience is in a better position to introduce prospective acquirers who are interested in equipment leasing companies, market their strengths and growth potential, and then guide the owner through negotiations.

Equipment leasing can be an intensely competitive business. This includes garnering attention when it is time to sell. Following the above advice, companies that maintain a keen focus and continually strive for operational excellence will be positioned to optimize the value of their organizations on the open market in 2011 and beyond.

## Tips for Prospective Buyers

In addition to assisting sellers who want to maximize their company's value in the market, The Alta Group works closely with buyers of equipment leasing and finance companies to assure they are making the right decisions for the right reasons.

**Establish acquisition parameters** - It is not productive to consider every acquisition opportunity that presents itself. Determine upfront the types of companies and the products/services they may offer that make most sense for an acquisition - and stick to these parameters, rather than lose focus and possibly make a decision that one may regret later. Also establish pricing and size ranges that are most appropriate for your organization.

Director

Gerard is working with The Alta Group's clients in various practice areas. She brings 25 years of management expertise in corporate valuation and investor relations, and has worked extensively with the capital markets and rating agencies throughout her career.

Prior to joining Alta, Gerard spent the last several years building her own strategic advisory firm, Intellectual Capital Advisors LLC. Earlier in her career, she served as chief investor relations officer for several S&P 500 and FTSE 100 companies, including CIT Group, Cable & Wireless, Dow Jones & Company and AT&T Capital Corporation.

Gerard also was in charge of the Finance and Leasing Company Group for Fitch Ratings Service, where she published more than 100 industry and company-specific research reports.



**Jim Billings**  
Consultant

Billings joins The Alta Group's M&A practice after more than 25 years with Kropschot Financial Services, most recently as executive vice president. There, he served as an investment banker and arranged the sale or merger of more than 30 companies.

He also assisted companies in obtaining equity or debt capital, plus led due diligence reviews for acquisitions, provided expert witness testimony and completed valuation assignments for financial

**Determine market focus and penetration** - Rather than simply eliminating a competitor, look for complementary business opportunities. More often than not, from an integration standpoint, these work better long-term than trying to blend teams together that service the same market(s).

**Carefully measure portfolio performance** - Some companies have greater issues related to credit and collections than they lead buyers to believe. A critical eye also should be placed on residual value assumptions, which can be overly optimistic. A careful review of portfolio performance may sound like a given, but acquirers, caught up in the potential benefits of an acquisition, sometimes turn a blind eye to what they may be inheriting.

**Evaluate the strength of the management team** - This is a critical factor in any acquisition decision. Of course, the competence of management is reflected in the performance to date of the target company, and a significant portion of an acquisition premium is often justified by the strength of the management team. If the plan is to maintain continuity and integrate the acquired company's management into the combined organization, what skills and experience do they bring to the table? Will they complement the acquirer's senior management?

To learn more about The Alta Group's M&A services, contact Bruce Kropschot at 352-750-3588, or via email, [bkropschot@thealtagroup.com](mailto:bkropschot@thealtagroup.com).

## Lease Accounting Changes: FASB Receiving Plenty of Feedback



**Shawn Halladay**

*By Shawn Halladay  
Managing Director, Professional  
Development*

The FASB Lease Accounting changes continue to move forward as the Boards consider the 700-plus comment letters received as of year-end 2010. The Boards' staffs have been busy reviewing, consolidating and cataloguing the responses which, much to nobody's surprise, mostly take issue with the proposals made in the

Exposure Draft.

From the lessor side, the Boards have heard from independent leasing companies, bank lessors, captives, lease brokers and advisers, consultants and software providers.

The FASB held a meeting in the first week of this month to

services clients.



**Chuck Thomas**  
Consultant

Thomas is joining Frechette in providing counsel to The Alta Group's vendor and captive finance clients. He is a 35-year professional in the information technology and equipment finance industries.

Following a successful career in computer sales at IBM, Thomas joined the newly created IBM Credit Corporation. There and with IBM Global Financing, he held executive leadership positions in sales, marketing, operations, pricing, contract practices, information technology and business transformation.

He played a key role in spurring the revenue growth of IBM Global Financing, IBM and the reseller channels. Prior to joining Alta, Thomas provided consulting and project management services to IBM in ten western and central European countries.

He also recently helped a Chinese technology manufacturer develop a worldwide sales financing execution plan.

discuss the following issues:

1. Service contracts
2. Lessor accounting
3. Options to extend or terminate a lease
4. Variable lease payments
5. Subsequent measurement: lessees
6. Transition

The Staff prepared issues for the FASB to consider which, for the most part, simply were a rehashing of the 2009 Discussion Paper. This time, however, the issues were couched in terms of "respondent comments" indicating the FASB and working group were asked to identify a preferred approach to each issue. Although open to discussion, these issues were not really being put on the table, so to speak, for reconsideration.

Some new ideas were broached as part of this process, one of them being the possibility of retrospectively restating all leases as of the transition date. This would require all leases on the books to comply with the new rules from inception. The Staff also indicated a need for additional guidance on leveraged leases, sale-leasebacks, grandfathering provisions, subleases, the fair value of residuals, and the general level of uncertainty as to how lessors will determine the appropriate accounting treatment.

The Boards received substantial feedback from preparers, users and other interested parties. It will be interesting to see how much impact this feedback has on the final standard to be issued in June. The Alta Group is available to discuss any of these issues with you and your staff.

*To learn more about The Alta Group's services to assist companies in evaluating the impact of changes to lease accounting, contact Shawn Halladay at 801-322-4499, or via email, [shalladay@thealtagroup.com](mailto:shalladay@thealtagroup.com).*

**Alta Vantage Points** is a free newsletter published regularly since 2009 by The Alta Group, a leading consultancy in the global leasing and finance industry. For more information, visit [www.thealtagroup.com](http://www.thealtagroup.com).

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