

How sale and rentback can help in hard times

Recession-hit companies are being affected by the double whammy of inability to access capital because of the credit crunch and customers not spending because of a severe lack of confidence.

As the crisis to access cash continues to deepen, companies that outright purchase their fleets could raise much-needed money for core business investment through a sale and rentback of their vehicles.

Northgate Vehicle Hire, Britain's largest rental company, which operates a fleet of 68,500 vehicles from more than 80 rental locations, has seen corporate interest in sale and rentback rocket in the past six to nine months.

And, with employers' body the CBI predicting that the recession will now run for most of 2009, with unemployment peaking close to three million, Northgate believes an ever-increasing number of companies will turn to sale and rentback.

'Usership' not 'ownership' should be the key focus for companies as they look to remove the risks associated with the outright purchase of vehicles from their business operations.

Outright purchase and various forms of leasing are invariably viewed by financial advisers as the main funding options, but all carry elements of risk at a time when the cost of borrowing is increasing with banks charging higher margins above base rate. They have also tightened their lending criteria, putting pressure on a business's ability to raise new capital.

In a revised economic forecast, the CBI said: "2009 is going to be a very tough year



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for business. Most worrying are increasing signs that the downturn is now reaching the corporate sector, with a number of companies making redundancies".

Companies like BT, JCB, Virgin Media and Yell have all recently made announcements about job cuts.

The CBI added: "Since October's financial turmoil, companies have started to report that, for the first time, they are finding it increasingly difficult to access capital.

"The banking system has come under immense strain, sending consumer and business confidence plummeting in its wake. Lack of confidence among consumers will dampen household spending. An unwelcome consequence of the downturn will be a significant loss of jobs, many of them in sectors that have been relatively insulated until now."

It is against that background that Northgate believes a shorter-term approach for longer-term business health is called for, with the solution being a sale and rentback of owned vehicles.

Northgate Managing Director Phil

Moorhouse said: "Sale and rentback is the smart move for forward-thinking businesses. Organisations should view rental as a flexible method of vehicle acquisition rather than being burdened with the fixed cost that ownership or leasing entails."

Under sale and rentback, companies benefit from an immediate cash injection into their business if they outright purchase vehicles. Northgate buys all or part of the fleet from the customer and then rents the vehicles back – agreeing a replacement profile that could mean replacing a large percentage of the fleet early or implementing a rolling replacement cycle. This removes expensive depreciating assets

from a company's balance sheet and gives the business a more modern and cost-effective fleet without any capital outlay.

This approach can improve a company's gearing ratio – the ratio of debt to equity – and enhance the bottom line.

Money previously tied up in vehicles can be used to fund development of core activities. The fleet is now effectively contracted to Northgate for just 10 months before reverting to a completely flexible solution thereafter, making it an ideal strategy for companies that need vehicles without any risks or long-term commitment. Customers also rid themselves of any future residual value risk.

Operational benefits of sale and rentback

- ✓ Fleet size flexibility without penalty
- ✓ No service, maintenance or repair bills for normal wear and tear
- ✓ Compliance with duty-of-care legislation
- ✓ Operation of modern low-emission vehicles
- ✓ Flexibility to change your fleet to meet changing needs
- ✓ Operation of a modern fleet lowers fuel and maintenance costs
- ✓ Vehicles provided will be fit-for-purpose for your business

Financial benefits of sale and rentback

- ✓ Cash injection into core business
- ✓ No requirement to borrow money to fund fleet replacement
- ✓ Depreciating assets removed from company balance sheets
- ✓ Improved corporate gearing - the ratio of debt to equity
- ✓ Increased tax efficiency
- ✓ Removes residual value risk
- ✓ Removes the need for a long term contractual agreement
- ✓ One monthly rental charge

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