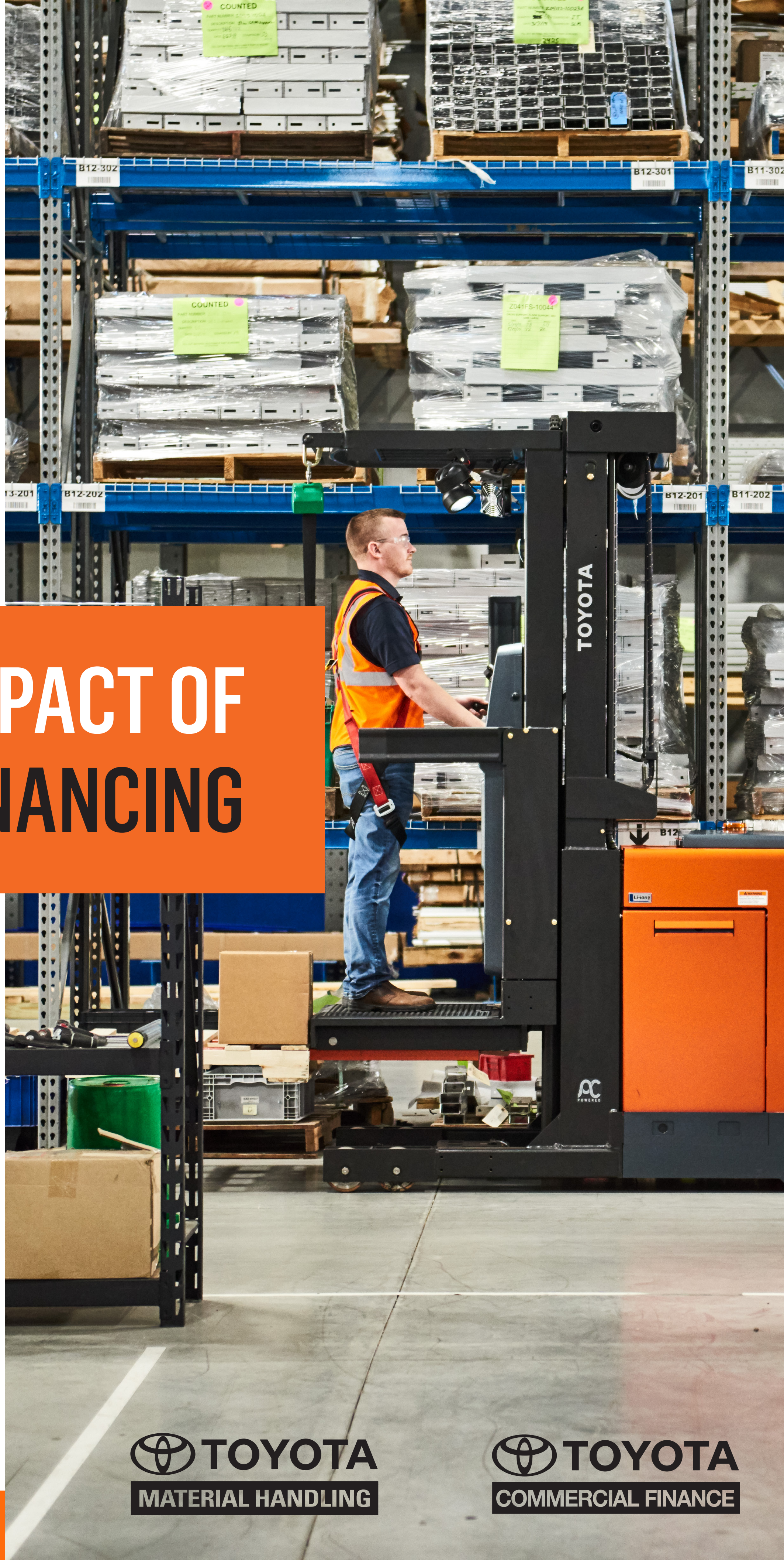
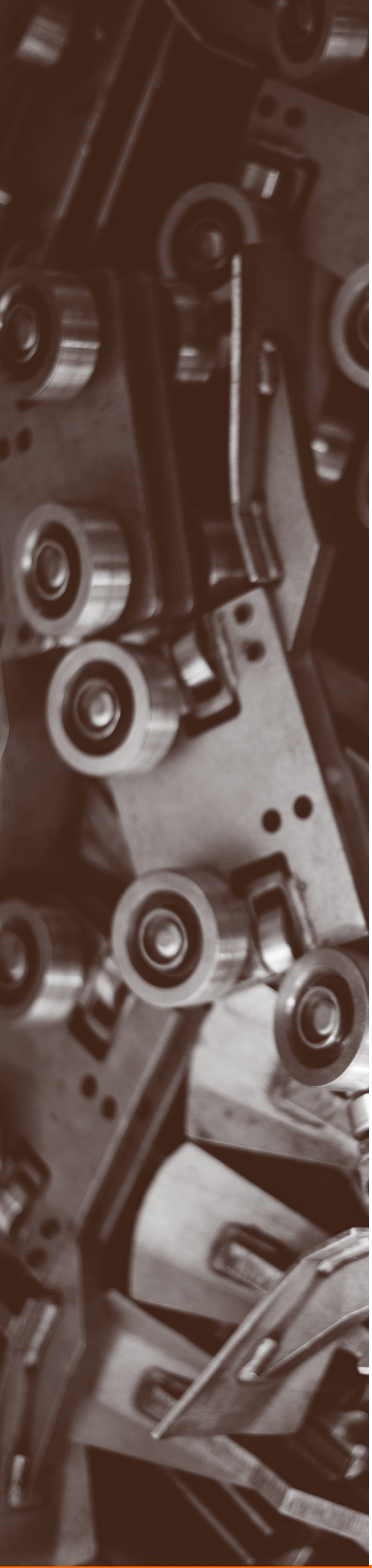
# THE REAL IMPACT OF FORKLIFT FINANCING




TOYOTA MATERIAL HANDLING

TOYOTA COMMERCIAL FINANCE

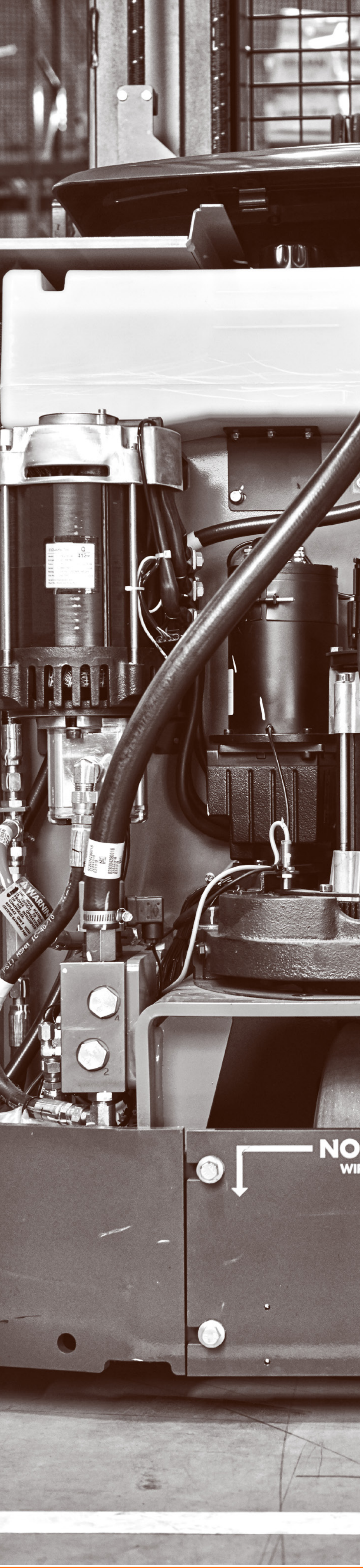


# TABLE OF CONTENTS

# FOREWORD

Purchasing decisions for material handling equipment can have short-term and long-term impacts on your business. Whether you decide to buy new equipment outright or take advantage of leasing programs, how you manage your investment can have as much of a lasting impact on your operation as the equipment itself.

In this eBook, we explore a wide variety of topics to help you establish your material handling equipment purchasing philosophy. This includes key challenges when considering your options and the impact of those decisions on your company, your operators, and your customers.



# CHAPTER 1

## Key Challenges and Solutions when Exploring Purchasing Decisions

Whether you should buy or lease your next piece of material handling equipment depends on several variables that you should examine carefully. Each must be considered to establish a consistent approach to your purchasing decisions that aligns with your company goals and cash flow needs.

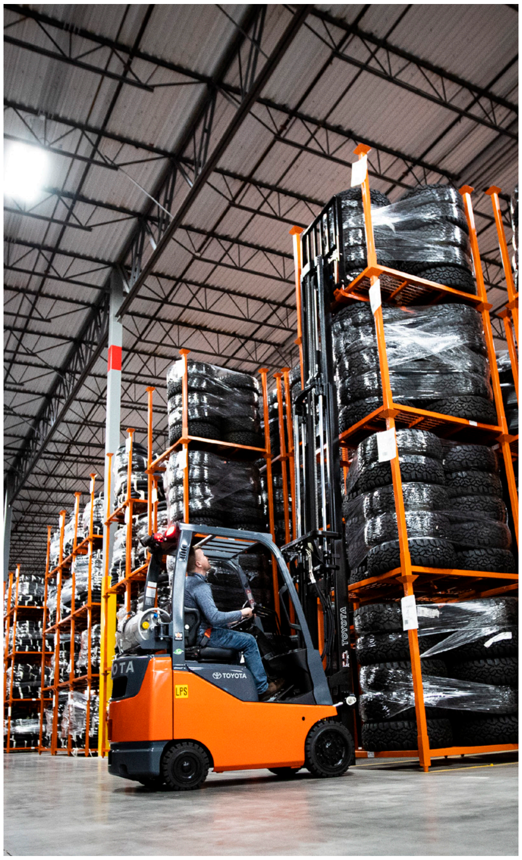
## WHAT DO FINANCE COMPANIES LOOK FOR?

When deciding whether to buy or lease your next forklift, it's important to understand what finance companies look for from customers interested in leasing.

Many finance companies use internal scores to grade applicants, and each company has different standards. At a basic level, the ability to pay – and pay on time – is important. Some finance companies will do business with customers who have less than stellar credit, but a strong, balanced portfolio will allow you to borrow at better rates.

**At a high level, here are a few things finance companies will consider:**

- **CREDIT SCORE**
  Better rates for higher scores.
- **PORTFOLIO MIX**
  How many open credits do you have? How many preferred credits? Better rates for customers with a strong mix of preferred credits.
- **HOW LONG HAVE YOU BEEN IN BUSINESS?**
  Less than 5 years is usually a red flag to finance companies
- **DO YOU HISTORICALLY PAY ON TIME?**
- **ARE YOU WILLING TO MAKE A DOWN PAYMENT?**
  For less than stellar credit scores, a down payment can help customers secure financing.



### Are You Buying From a Brand with a Captive Finance Company?

If you're financing your forklifts from a brand that owns a captive finance company, you'll have access to more benefits than you would with a traditional finance company. Captive finance companies – such as Toyota Industries Commercial Finance – only do business with the brands they represent (in this case, Toyota Material Handling).

Because these companies have skin in the game, they are willing to work with dealerships to secure financing for their customers. Whereas traditional lenders can sometimes be overly conservative, captive finance companies are often willing to be more creative.

Captive finance companies can often provide a customer with more flexible options than a traditional lender, and may be able to offer better terms and easier financing for businesses with damaged credit. This can be especially valuable during uncertain economic times.

Learn more: toyotaforklift.com/financial-services

## What is the Current Economic Climate?

The state of the economy impacts all purchasing decisions. While economic trends won't entirely dictate purchasing decisions, buying and leasing benefits can be linked to economic swings.

### BENEFITS OF BUYING DURING ECONOMIC UPTURNS

- Avoid interest payments
- Keep overall debt ratio down
- Open additional tax deduction options
- Establish ownership, thereby allowing some field modification options

### BENEFITS OF BUYING DURING ECONOMIC DOWNTURNS

- Pay less up front
- Benefit from low interest rates
- Maintain flexibility for adjusting your fleet size
- Flexibly change the product mix of your fleet
- Transition terms after lease expiration


### How Will The eCommerce Boom Impact My Business?

The world is changing faster every day. The rise of digital companies like Amazon will change the types of material handling products needed by many companies. That will continue to evolve, so what your business needs today may be different than what you need three years from now.

If you're in an industry that is evolving quickly, leasing may make sense. It allows you flexibility to evolve with the times without the financial commitment of owning a truck that may no longer serve your needs.

Leasing can also allow you to set a predetermined replacement cycle based on your operation's needs. Shorter leases tend to work better for companies that want to be more fluid and for high-cycle, high-throughput applications that will put more wear and tear on the forklifts more quickly.

It will give you the opportunity to reevaluate enhanced forklift options and technologies by enabling you to keep a rotating stock of new forklifts in your fleet.

# Considerations for Leasing vs. Buying

It's the age old question: Lease or buy?

You could try to go straight by the numbers. To do so, you'd need to do a detailed analysis on the rate of return — factoring in an array of inputs and variables such as:

- Sale Price
- Loan Term
- Interest
- Down Payment
- Discount
- Tax Rate
- Depreciation
- Cost of Maintenance
- Cost of Equipment Disposal
- Payments
- Fees
- Security Deposit
- Tax Benefit
- End of Lease Purchase or Sale

But unfortunately, there is no magic formula that will tell you definitively which option is right for you — because the numbers tell only one part of the story.

For many companies, the decision boils down to their corporate philosophy on ownership.

Is your treasury looking for tax depreciation?

Is it important to only pay for what you're using (i.e. the hours you put on the equipment)?

Are you willing to take on upkeep and disposal responsibilities?

Is it a point of pride to be able to say "that's mine"?

Is consistently having relatively new equipment to use a consideration?

### Forklift Downtime: True Impacts and the Value of Good Equipment

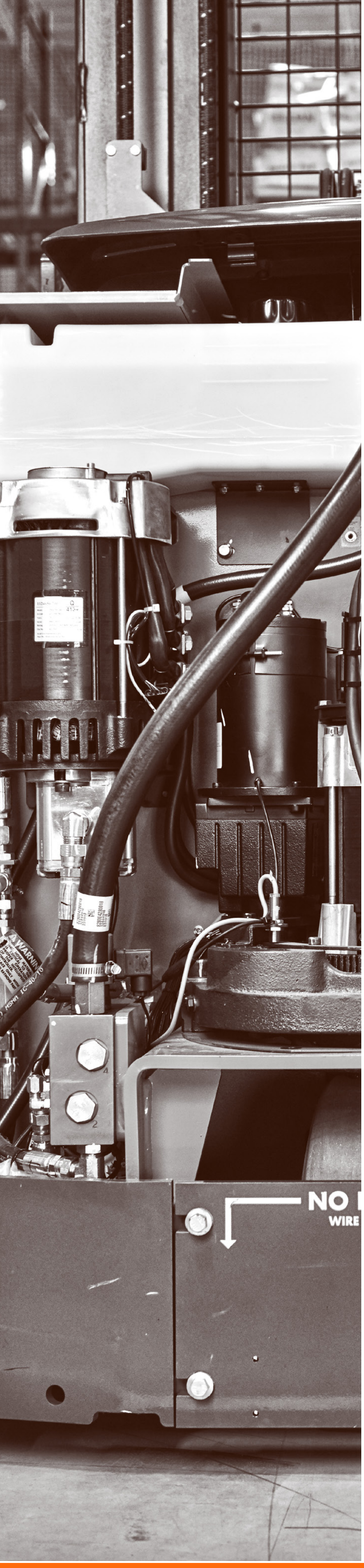
When an operation is running smoothly, you're meeting customer demand by maintaining high throughput and making good on all delivery expectations. What can interrupt that successful and efficient operation?

Forklift downtime.

When a forklift is down for unexpected maintenance, you run the risk of more than just unanticipated repair costs. The impacts of downtime are far reaching and can include:

- Losses on labor investment – When your associates aren't working, you're losing money. When you have to play catch up, you have to pay overtime.
- Losses on product – Your product costs consumers and takes time to manufacture. With enough information, you can figure out how much your time is worth, down to the minute. Every minute lost is money lost.
- Losses on fixed costs – When you have a down forklift, you still have to keep the lights on.
- Losses on reputation – For many warehouses, distribution centers, and manufacturers, you are only as good as your ability to deliver on time. A down forklift will impact your ability to do so.

So how can you avoid downtime? One of the most important steps you can take is to invest in quality equipment! Whether you're leasing, renting, or buying, it can be easy to just find the cheapest model. But the cheapest model is usually less expensive for a reason, and downtime can cause far more serious financial losses.




# CHAPTER 2

## How to Choose the Right Financing Options

## Questions to Ask Your Finance Company

You probably already know some of the big questions to ask — like, "What's the interest rate?"

But there are some aspects of a financing agreement that many organizations overlook when they sign the dotted line and later find themselves with the unpleasant surprise of fees they weren't expecting. Simply knowing the right questions to ask upfront can help you gain a full picture of every potential cost and make a wise decision that won't lead to a financial regret later.

Here are just a few of the questions you'll want to make sure you ask about:

### WHAT ARE THE RETURN CONDITIONS?

- When do you have to return the equipment?
- Where do you have to return the equipment?
- What condition does the equipment need to be in (e.g. how many hours of use, what level of wear-and-tear, etc.) to avoid incurring extra charges?
- Are there any accessories or accompanying items (e.g. keys, owner's manuals, etc.) that need to be returned with the equipment?

### WHAT PAYMENT TERMS ARE AVAILABLE?

- How should your bills be paid?
- When should your bills be paid?
- Is there a grace period?
- Are there late payment fees?

### WHAT ARE THE CONDITIONS OF TERMINATION?

- Can you end your lease early?
- What is the termination fee?
- What other penalties might be incurred for ending a lease early?

### WHAT IS THE COST OF TIME?

- What happens if you go over your hours?
- What are the charges associated with extra hours?
- How can you make your lease work for you if you know your business is a low- or high-hour application?

### WHAT HAPPENS WHEN THE EQUIPMENT TRANSITIONS OFF LEASE?

- How much would it cost to purchase the equipment after your lease?
- If there are charges at the end of your current lease, could you roll them into your next lease?

# Financing Types — Defined

## CLOSED-END OPERATING LEASE

A standard lease. The customer pays for use of the equipment for a specified period of time. Ownership of the asset is retained by the finance company.

### BENEFITS

- Pay for the time you have use of the equipment — rather than the full cost of ownership.
- High- and low-hour application customization available.
- Option to extend the lease at the end of the term — or to lease new equipment.
- Avoid the risks and liabilities of owning the equipment.

## FINANCE LEASE

(aka Capital Lease, Bargain Lease, or $1 Purchase Option)
Similar to a purchase agreement in some respects. Ownership of the asset provided to the customer and the lease is treated as an interest-bearing loan. Typically, the customer is provided either 1) a purchase option at a nominal or below-market price or 2) a very minimal residual.

### BENEFITS

- An alternative to cash and retail installment contracts.
- Ability to purchase equipment outright at the end of the lease for a nominal amount.
- Ideal for severe operating conditions because of the ability to lower taxable income by claiming depreciation and interest.
- Enjoy the rewards of owning the equipment.

## PRO-TIP

Some financing companies have developed proprietary financing options to offer exclusively to their customers. For example, Toyota Commercial Finance offers a Retail Installment Balloon Loan and a One-Pay Lease . So be sure to ask about any unique payment options available from the financing company you're working with to consider all the possibilities.
Learn more at: toyotaforklift.com/financial-services

## FLEX TERM LEASE

The customer leases equipment for a specified period of time initially, with periodic windows (sometimes called "outs") when the customer has option to renew or continue the lease at a preset rate, as well as return or purchase the equipment prior to the end of the lease.

### BENEFITS

- Typically offers more customer savings than a standard lease.
- Option to extend lease based on customer's business needs.
- Ability to align a specific lease period with the customer's contract commitments.
- Structure a program that will adjust to anticipated market fluctuations.

## MASTER LEASE

The customer leases the equipment they need right now with the ability to add any future acquisition needs to the same lease agreement without needing to enter a new contract and negotiating process.

### BENEFITS

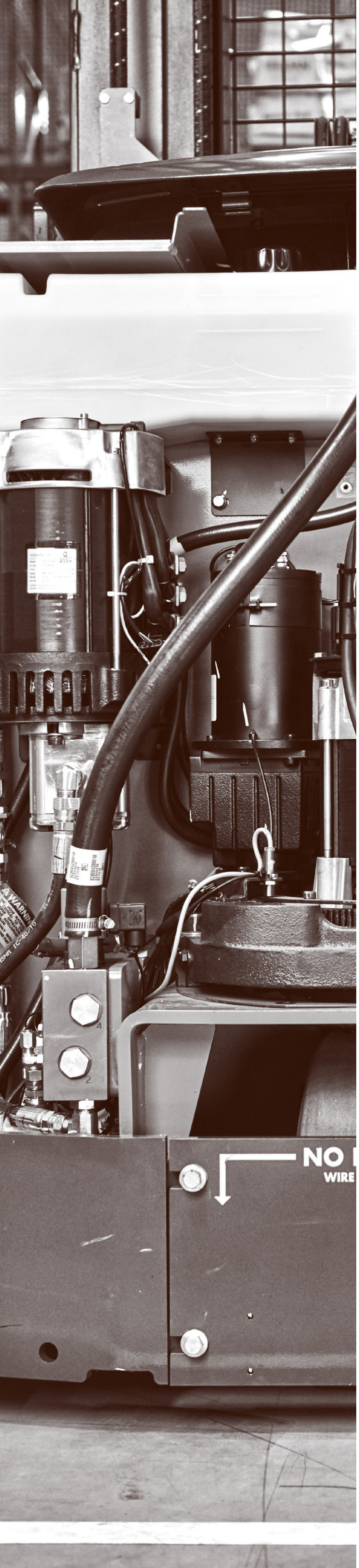
- Fewer documentation requirements.
- Covers multiple purchases over an extended period of time.
- Only one lease agreement is required.

## RETAIL INSTALLMENT LOAN

(aka Retail Installment Sale, or Retail Installment Contract)
The customer finances the purchase of their equipment with an agreement to pay the value of the equipment plus interest over a specified period of time.

### BENEFITS

- An alternative to paying cash.
- Spreads the cost of the purchase out over a set period of time.
- Customer maintains full benefits of ownership.



# CHAPTER 3

## Who Leases? Profiling Common Leasing Operations

# High-Throughput Operations

When the name of the game is cost control in high-throughput operations, companies often turn to leasing for equipment procurement. High-throughput leads to high forklift usage. And as with all equipment, forklifts can experience accelerated wear and tear over time. A forklift's useful life only extends to the point where repairs and maintenance don't impact the bottom line or rate of financial gain. When a company with such demands leases their equipment, they are often able to avoid costly repairs or maintenance fees that come with frequent use by bringing in newly leased equipment at the end of term – therefore keeping up with demand and remaining profitable.

Can your high-throughput operation benefit from leasing? Answer these questions:

**Do I use the forklifts in my fleet more than 12 hours per day?**

If so, you might consider the rate of use as a factor in your lease vs. buy decision.

**Do my forklifts require unanticipated repairs?**

Forklift wear and tear is normal. But if your forklifts require unanticipated repairs and are older than 24 months (a common lease term), you may consider a leasing model that would regularly allow you to rotate equipment.

**Has my throughput demand increased in the last year?**

Increasing throughput can lead to increased usage. If your usage goes up and frequency of repairs does too, you might consider leasing as an alternative, especially if your long term projections indicate increased demand is the new normal. A constantly evolving fleet also allows you to leverage new, productivity-enhancing technologies that can enable you to meet demanding throughput goals.

**PRO-TIP**

Increased throughput demands can be supported by automation technologies – Toyota Commercial Finance will work with Toyota dealers to help with leasing and finance-to-own options. Check out our automation technologies and services: www.toyotaforklift.com/automation

## Warehouse and Distribution Center Operations

Susceptible to high rates of inbound product for quick and high-volume distribution, equipment use in warehouse and distribution centers can be through the roof. These types of operations often require a wide variety of equipment, from order pickers, to sit-down counterbalanced forklifts, and smaller equipment like electric pallet jacks and walkie stackers. For larger forklift operations, leasing can make sense in warehouses and DCs to avoid unplanned repair costs and utilize enhanced technologies – facilitating a clear competitive advantage, especially with continual advancement in electric forklift technology.

Can your warehouse or distribution center benefit from leasing?
Answer these questions:

### Do I have wide variety of equipment that is high-use?

Larger equipment such as forklifts and order pickers play a key role in sustaining the success and profitability of a warehouse or DC. Making sure they are in optimal condition and provide enhanced technology helps to facilitate success – both characteristics supported by a leasing model.

### Do I have seasonal swings in demand?

Seasonal swings happen in a wide variety of industries, and the warehouses and DCs that support them have to be able to adapt to that seasonality. It is bad timing for a forklift to need repairs right as the busy season peaks because of high-use in previous years. Leasing can help mitigate the risk, allowing you to bring in fresh forklifts on a cyclical basis.

### Do I work in a business landscape with high competition?

Seeking every competitive advantage when you're battling for every scrap of business is supported through leasing, which can deliver productivity-enhancing design to your facility every 24, 36, or 48 months.

### PRO-TIP

It can help to electrify your fleet! With the boom in electric forklifts over the last decade, some finance companies (like Toyota Commercial Finance) are making adjustments to residuals to help facilitate electric forklift procurement.

Learn more: toyotaforklift.com/lifts/electric-motor-rider-forklifts

## Large Fleet Operations

Protecting capital is a primary concern for large fleet operations where equipment acquisition is frequent, a requirement of success, and a major part of the company's investment portfolio. Tying up capital in purchased equipment leaves less for investment elsewhere with little chance of recuperating any of that investment when that equipment reaches end of life. Large companies can free up capital for other investments by leasing. And because a lease means the company only pays for the time they use the forklift, they are maximizing their return on investment.

Can your operation size benefit from leasing? Answer these questions:

### Do I have a large number of forklifts in my fleet?

The actual number of forklifts that designates a fleet as "large" is relative – it depends on your specific company's financial standing, capital investment budget, and use rate. But once buying new forklifts outright is detracting from your ability to invest in other areas of your business, it may be time to consider leasing for equipment acquisition.

### Do I have multiple forklifts in my fleet that need unplanned repair at the same time?

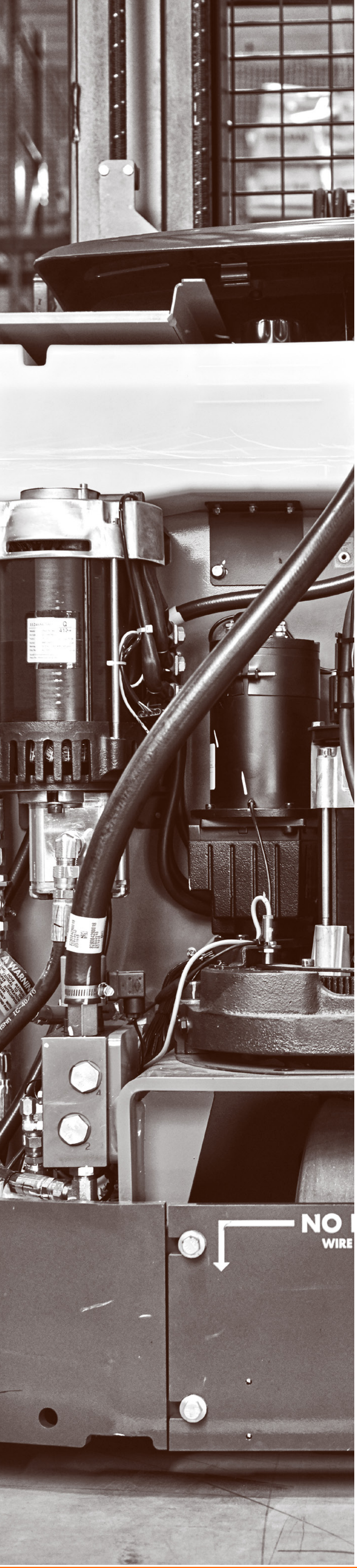
Unplanned repairs throw a wrench into any operation. But, for larger fleets that are depending on many forklifts to work seamlessly throughout the operation, the problem grows exponentially when many forklifts are being repaired simultaneously. As that problem compounds and complicates your operation, leasing may be a viable solution to help avoid downtime.

### Do I have several locations but centralized finance operations?

Depending on company philosophy, assessing the useful life and long-term viability of owned forklifts across several locations can be burdensome. Negotiating lease terms including payment terms, payment rates, return conditions, and return locations from one centralized office can help streamline the process and ensure all branches have relatively new forklifts in their operation.

### PRO-TIP

Many times planned maintenance is discounted as part of a lease agreement. With Toyota, that means you'll get Toyota certified technicians, reduced labor cost, and proactive maintenance and repair. Click here to learn more: www.toyotaforklift.com/360-support




# CHAPTER 4

## The Hidden Impact of Forklift Purchasing Decisions

## How Purchasing Decisions Impact Operators

### LEASING

Leasing provides a constantly rotating fleet, allowing each forklift to be replaced after a three to five-year period. This helps ensure that operators are leveraging advanced technologies, ergonomics, and productivity-enhancing features.

Since leases include terms related to the number of hours allowed and forklift condition at the end of the lease, operators are held accountable for care of the equipment – potentially reducing downtime and maintenance costs.

### PURCHASING

Owning a forklift typically means the forklift will remain with the owner until the end of its useful life, which can be as long as 10 or more years. This reduces the frequency in which operators would need to be trained on an unfamiliar product.

Purchased forklifts can be modified to fit operator preference and updated with enhanced technologies over time. This allows some flexibility with maintaining familiarity while continually meeting operators' changing needs.

Much like with automobiles, many forklift operators develop an attachment for forklifts that they operate on a daily basis. This pride in ownership can lead to taking better care of the equipment.

### RENTING

Rental periods vary greatly depending on the need and seasonality. Rental forklifts often are built to a standard specification that meet most customers' basic needs. As a result, rental forklifts may not be equipped with some special features or customizations that may be familiar to operators.

A benefit of forklift rental is that operators can stay active and productive when owned or leased forklifts experience downtime. Rentals operate as effective replacements as necessary.

# How Purchasing Decisions Impact Maintenance Personnel

## LEASING

The primary advantage of leasing is the reduction in maintenance costs and labor. Customers that lease tend to rely on the equipment dealer to provide service and repair under planned maintenance schedules as part of the lease.

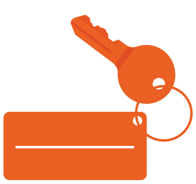
Some customers who lease may still employ a maintenance team or a maintenance manager for supervision and quick repairs. Having planned maintenance at regularly scheduled intervals and support from the equipment dealer alleviates much of their workload.

Since forklifts are constantly rotating out before they achieve high working hours, less maintenance is typically required, allowing maintenance personnel to focus on optimization and usage as opposed to constant or unexpected repairs. Also, rotating out your entire fleet simultaneously allows for increased parts commonality across the entire fleet.

## PURCHASING

Purchased forklifts provide familiarity with the inner workings of the equipment, allowing for quicker assessment and repair in some cases. Common replacement parts can be readily stocked based on historical need. The likelihood of parts obsolescence is also reduced.

Owned forklifts remain with the customer longer, meaning they often require additional maintenance and repair as they increase in age. Depending on the length of ownership, they can sometimes require major overhauls, which can be more complex and require additional technical knowledge and capabilities, which internal maintenance personnel may need to learn or may require outside assistance.



## RENTING

Dealers typically cover 100% of maintenance costs for rental forklifts, alleviating the workload of your technicians. This usually includes all repairs except those that may be considered the result of damage or abuse. Your maintenance team will be able to focus on your owned or leased fleet while dealers take care of the rentals.

This can be particularly helpful considering that rental forklifts may be different makes or models than what your technicians typically work on. Less required training for technicians is an added bonus.

## How Purchasing Decisions Impact Your End Customer

**LEASING**

Keeping your fleet outfitted with enhanced technologies on a rotating basis can help improve your overall productivity and throughput. This facilitates better on-time deliveries and customer relations.

Reductions in maintenance and downtime can have a similar impact by mitigating the risk of disruption to your operations. Lower overall operational costs, particularly for high-throughput applications like warehousing, can lead to increased price competitiveness.

**PURCHASING**

Depending on your operation and financials, purchasing can provide significant return on investment over the useful life of your fleet. Increased ROI lowers your operational costs, allowing you to pass those savings along to your customer.

Unlike with leasing, there are no terms around the length of your ownership of the forklift, meaning you won't incur a penalty for underutilization outside of depreciation. This can also allow cost-effective fleet size increase and provide some flexibility in the event of downtime. In doing so, you can reduce the likelihood of downtime affecting your on-time deliveries to end customers.

**RENTING**

Rental forklifts represent ideal short-term and long-term solutions to meet peak demand and seasonality changes for your customers. Terms are flexible, allowing you to monitor usage and make adjustments to your fleet on a running basis. While this requires some additional work to constantly monitor fleet size, it allows you to run leaner during slower periods and bolster your fleet during the busy season.

Customers will appreciate your flexibility in meeting their demands and ability to adjust for quick swings in demand. With rental forklifts, however, the supply can be limited to what is available at your local dealership. Relying on rentals can present some risk if there aren't enough available to meet your needs.


# CONCLUSION

## Eliminating Muda, Mura, and Muri

A philosophy born of the Toyota Production System, eliminating waste is fundamental to the success of any business. Waste comes in three fundamental forms. Muda is material waste that includes overproduction and wasted motion. Mura is unevenness in workload. Muri is overburden or strenuous work that leads to low quality.

At their core, financial decisions should be about eliminating waste and making the correct choices for streamlining processes. Eliminating financial waste will free up funds for investment, and raise your company to new heights in the future.

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