Netherlands

MARKET REVIEW

The Dutch equipment leasing market: 'Many viruses, few microchips'. It looks as if the Dutch leasing market is facing small, very small opponents. After two years of fighting the coronavirus, very small yet so powerful that it threatened an entire society, we now have to contend with a shortage of microchips, also very small, also very powerful and an essential part of just about every asset. We had too many of the one, by far not enough of the other.

In the year 2021, the leasing market held up well, with €6.9 billion worth of leasing contracts concluded with a total of over 72,000 companies, an increase of 4% year-on-year. The lessees are mainly SMEs, nearly 70%, although large companies in particular recorded a growth of 32%. Leasing to small companies and micro businesses is experiencing a decline. This can be explained by the fact that it is precisely the small businesses, including restaurants, cafés and small shops, that have suffered most from the corona measures and have therefore been forced to reduce their investment level. Medium-sized and large companies were able to overcome the crisis relatively well and continued to invest in new equipment and assets.

However, it is worth noting that as a result of the chip shortages, fewer machines and trucks were delivered, which for the leasing company meant that the contracts were not able to be signed. This was clearly felt in the second half of 2021. It could have been an even better year, because demand is definitely on the rise.

The most important asset categories remain transport, agricultural and construction-related machinery as well as industrial machinery. These account for 75% of the total volume, the rest is

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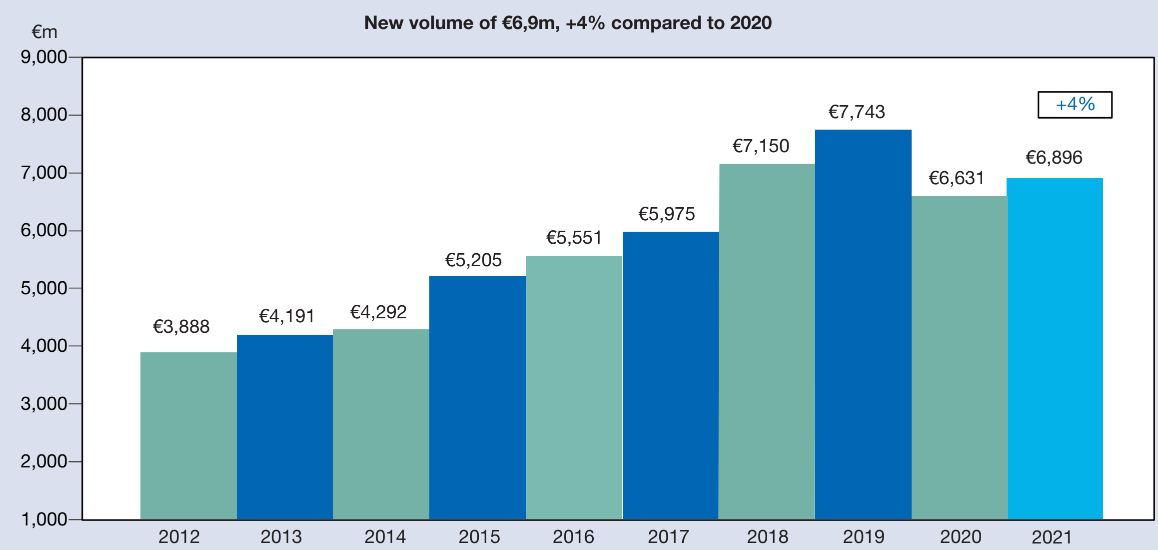
Table 1: New equipment leasing volume



spread over a wide range of assets, such as medical equipment and computers. Transport-related objects are on the rise, driven by the 'package economy', but also by investments in low-emission engines.

The distribution over the asset categories remained relatively stable, with machinery 38% and transport 32% of new contract volumes. A new category of passenger cars represented 18% of new volumes. The ICT and copier leasing market is continuously eroding year by year (down 19% in 2021) as the asset value also erodes.

Operational car leasing growth is supported by private leasing, a financing model for consumers that has taken a market share of 23% of all leased cars.

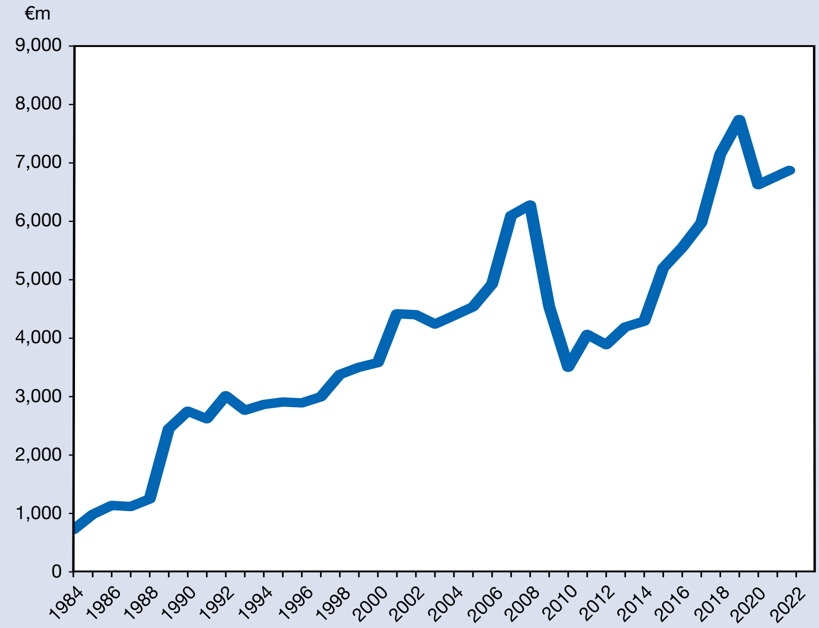
While operating leasing is the standard in the car leasing market, financial leases dominate the equipment leasing market. This is related to the high market share of the (three) main banks in the Netherlands selling finance leases as an alternative for bank loans. This is certainly helpful for SME's looking for plain vanilla leases for commonly used equipment. It gives space for other, smaller, leasing companies to present their added value in terms of residual value and asset know how. In some cases this is put into practice with sale and lease back structures that are welcomed by cash poor, but asset rich companies.

The current conditions are challenging for companies and businesses in all sectors. All companies have to keep investing in the latest technologies and they need financing. Added to this, the energy transition brings huge investments and is shortening normal investment cycles. Leasing companies may leverage these investments because they are focused on the future; they are looking more at what a new machine or truck will yield in terms of turnover, or how much it will save in costs. Because ultimately that creates payback capacity. Leasing is therefore more essential than ever in the financing mix of companies.

From a risk perspective the number of bankruptcies remains surprisingly low. Lessors report that the level of arrears for leasing instalments is low and that the number of lessees in distress is limited.

Lessors invest a lot in processes and controls to comply with the Anti-Money Laundering regulations. Despite the low-risk character of leasing in this respect, non-compliance is not an option. The Dutch Leasing Association has issued a Guideline

Table 2: Leasing production in the Netherlands 1984–2022



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document to help lessors to analyse the risks involved and develop their own policy.

Leasing Nederland – NVL was established 50 years ago, in 1972. In those 50 years, leasing has developed from a combination of rental plus financing to a mature and popular financing solution, not only for cars but for a wide range of business equipment. For many people it is a surprise that leasing puts some 7 billion in credit volume into the market every year, separate from bank financing, and without the company having to provide collateral. There are many more leasing providers than there are banks, which means that there is also a choice of providers.

What is going to happen in the next 50 years? At least a massive shift to low emission or zero emission assets is expected, incentivised by new environmental legislation and the energy transition. Lagging those investments would mean that these companies are no longer eligible for the market nor for their customers.

Lessors will definitely have to play their role in the support of companies compelled to invest and to use 'greener' assets. It is clear that huge investments are to be made. Lessors need to keep a close eye on their asset knowledge, as the transition will impact the current fleet, including residual values. Predictions about the residual values of new assets are difficult. However, this is not new. In essence, leasing has always been focused on new assets. A massive shift in the power train may therefore not be the issue, as the newest assets will be in demand for second-hand use.

Table 3: Asset categories

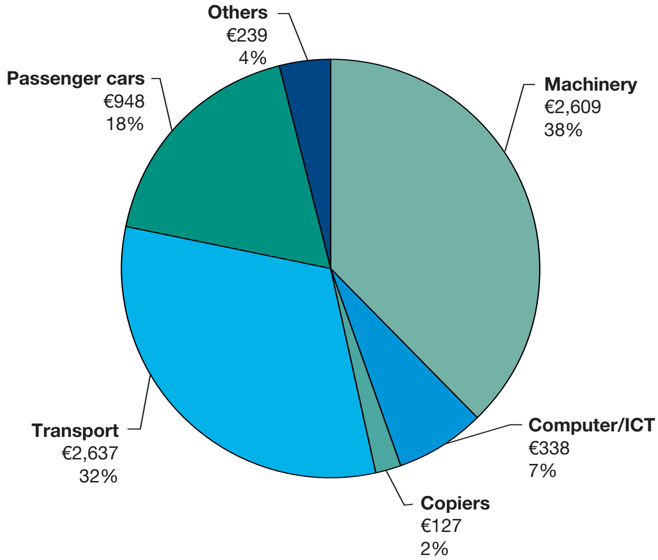

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Table 4: Financial vs operational lease contracts (2021)