Over the past few years, many companies have minimized or frozen spending and investments. However, the pressure to stay competitive in the global marketplace makes it unrealistic to hold off on technology and operations improvements for the long term. For many, it’s time to determine what initial investments make the most strategic sense and how to finance them. We take a look at some creative approaches.

Equipment is just as important to the success of your company as intellectual capital and management strength. The question is whether you are leveraging its value to deliver maximum benefits in expanding your operations, increasing productivity or replacing aging equipment?

**STRUCTURING A TRADITIONAL LOAN**

In an environment where interest rates are still low, many companies are choosing to purchase equipment using their existing bank line of credit, a traditional term loan or, in some cases, cash. But you may not realize that a loan can be structured as more than just interest, term and principal.

- Structuring a balloon payment at the end of the term loan can add cash flow benefits and provide a hedge against gains and losses on a sale in a volatile used equipment market.
- An interest-only component at term inception can allow the new piece of equipment to ramp up in performance and allow you to ramp up your cash outlays.
- Qualifying for 100 percent financing of your equipment acquisition can allow you to gain financing without concern for a loan-to-value calculation and a cash down payment.

A creative loan can help control infrastructure costs, better leverage working capital, preserve cash flow and effectively manage equipment obsolescence.

**THE LEASING OPTION**

It is the use of the equipment, not its ownership that makes you money.

A well-structured lease allows you to obtain equipment at a fixed rate for a fixed period of time without having to purchase it outright.

By leasing, you can avoid many of the uncertainties associated with ownership, allowing you to focus on using the equipment to effectively run your business.

In addition, when you evaluate the true life cycle of an asset, it may become apparent that leasing will fit your needs better than a loan. You should consider timing as well as how the asset you are acquiring will be used. Is it a laptop sitting on a person’s desk for three years or a machine tool that might be bolted to the floor for 20 years? What options do you have once this equipment becomes obsolete?
An appropriately structured lease can provide up to and including 100 percent financing, allowing you to reinvest your conserved cash elsewhere in your company — like R&D, marketing or technology.

In addition, leases can provide lower borrowing costs, offer longer terms and deliver improved return on assets when compared to traditional or alternate financing options.

**LEASING CAN IMPROVE CASH FLOW**

Cash flow may be the most important component of your business — and the second and third most. Leasing, among other equipment finance strategies, can present the greatest cash flow benefit because of the residual position the lender takes.

In addition, by getting a tax depreciation benefit you may not be enjoying, you can further positively impact your monthly obligations.

**BENEFITS OF TAX-ORIENTED LEASES**

One of the strongest benefits of leasing is the tax benefit. By using a tax-oriented lease, you can trade off the tax benefits to your equipment finance provider and generate a lower implicit rate on the lease — usually below that of a conventional term loan.

Another advantage is that you can fully expense the entire rental payment, benefitting from a lower rate while still preserving some tax shelter.

**LEASING CAN IMPROVE LIQUIDITY**

Leasing provides a capital-raising alternative because your equipment finance provider puts its money into the depreciating assets, while your cash flow can be used for other areas and activities that may generate a stronger return on investment.

This pay-for-what-you-use approach may allow you to pull more out of your budget than you thought possible.

**CHOOSING THE RIGHT PROVIDER**

By considering these equipment financing solutions for your capital expenditure budget, as well as for your existing asset base, you have the opportunity to make a positive impact on your business cash flow and liquidity.

Times like these need more than just the same old thinking. An experienced finance provider that understands the value of your equipment and your company’s goals can help you more effectively address today’s challenges and pursue tomorrow’s opportunities.

For more information, contact your business development officer or visit pnc.com/ef.