

Media Release

New Growth Driven 'Bottom Up' by Equipment Finance

(9 April 2018 - Australia) Asset & Equipment financing represents an integral part of improved productivity, innovation, working capital management and capital expenditure growth in Australia. With broad based business credit demand limited to sub five percent over the last two years, the total component of Equipment Finance represents an increasingly critically important element.

With equipment finance and leasing facilitating over 40 percent of total capital expenditure for Australian enterprises according to the Australian Bureau of Statistics (ABS), the specific breakdown by business size is crucial for forecasting future demand. This includes replacement of outdated assets being stretched beyond their intended working life and investment outright new equipment for growing enterprises.

Research from East & Partners' latest Australian Asset & Equipment Finance Markets program shows that as a proportion of total lending demand, equipment finance represents 24.6 percent of total borrowings market wide. Broken down by segment, this figure reaches as high as 35.8 percent for Micro businesses turning over between A\$1-5m per annum.

The program indicates competitive positioning for asset and equipment financiers is becoming more challenging as banks allocate greater resources to defined equipment finance offerings. Previously asset and equipment finance was more of a niche product offering integrated with other lending facilities.

Brokers continue to be a key constituent in the equipment finance market, particularly among small businesses. Broker sourced equipment finance volumes have expanded by 19.9 percent in the last decade from 58.4 percent to 70.0 percent on average. Customers highlight more competitive pricing and time saved shopping around as key advantages.

With one in two corporates preferring business development approaches by direct referral or word of mouth introduction, customer advocacy has never been more important for equipment finance. East & Partners research closely tracks customer churn intentions, competitive pitching approaches experienced by customers, brand recall and sources of advice to determine which providers are winning the challenge.

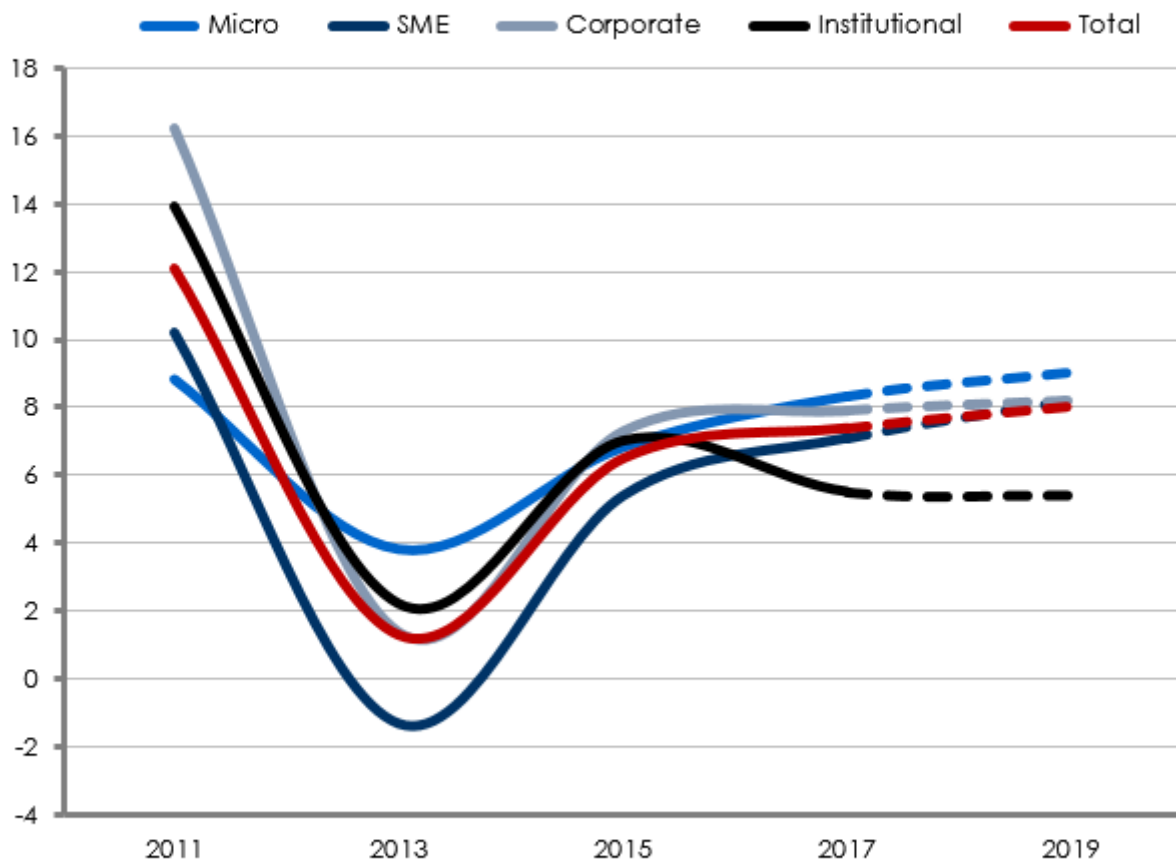
The major banks are predominantly associated with traditional equipment financing and car fleet leasing activities, responding to the well-publicised need for improved liquidity and relief from crippling working capital constraints. Historically low interest rates and a depreciating Australian Dollar are important drivers of underlying growth in non-mining sectors also, with a core focus on the impact of new technology.

Martin Smith, East & Partners' Head of Markets Analysis said "The research highlights that despite the Big Four representing cumulative primary transaction banking and lending market share of 78.4 percent and 72.2 percent respectively, growing penetration of providers such as newly rebranded Maia Financial, BoQ, Macquarie and Suncorp clearly indicate that businesses are willing to look beyond their core relationship bank for better pricing, innovative solutions or simply a more straight forward credit approval process.

“Following a resurgence in new capital expenditure intentions as reported by the ABS, positive business confidence is converting into renewed positivity towards increased equipment finance receivables in 2018.

“Upcoming rounds of reporting will provide a key indicator of businesses ability to absorb significant changes to International Financial Reporting (IFRS) accounting standards as operating leases balance sheet recognition is altered in 2019, affecting major industrial, transport, mining and manufacturing sectors in addition to banks themselves,” Mr Smith added

Forecast Equipment Finance Volume Average % Change Forecast



Source: East & Partners Asset & Equipment Finance Program - 2018

About East & Partners Asset & Equipment Finance Markets Program

The Australian Asset & Equipment Finance Markets program represents the only standalone research program of its kind, providing key competitive market positioning statistics, customer satisfaction ratings, credit process, customer churn, broker engagement, underlying demand drivers and proprietary volume analysis. East & Partners has continuously interviewed +/- 1,300 asset and equipment finance market participants each year since 2006.

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About East & Partners

East & Partners is a leading specialist business banking market research and analysis firm. The firm's core expertise is in the provision of analysis and advisory services tailored for the commercial, business and institutional banking markets across Asia Pacific, Australasia, Europe and North America