

Leaseurope



The Voice of Leasing and Automotive Rental in Europe

Leas LEASEUROPE
INDEX

Survey of European leasing and rental firms

Leaseurope Index Segment Survey 2018

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LEASEUROPE INDEX SEGMENT RESULTS: 2018

About the Segment Survey

The Leaseurope Index is a unique survey that tracks key performance indicators of a sample of European lessors on a quarterly basis. The Segment Survey is an annual supplement to the quarterly Index, reporting on the financial ratios¹ broken down by four asset types; equipment, real estate, passenger cars and commercial vehicles. This 2018 survey is the eighth edition of the project.

Both weighted average ratios and median ratios are reported. The weighted average ratios are useful as they take into account the size of the firms, so that bigger firms contribute more to the final value than smaller firms, but they can be heavily influenced by extremely positive or negative values (outliers). The median ratio reports the value of the mid-point or 'typical' firm and therefore is not influenced by these outliers. However, it does not take into account the firm size, merely the number of firms. Taking into account both of these ratios should give a better picture of the market trends.

We present graphs showing the quarterly trends in 2018, followed by the annual trends from 2014 to 2018. The quarterly results are a lot more volatile than the annual figures, therefore the annual results are a more reliable indicator of changes in the relevant asset segment markets.

Please note that the results of the Segment Survey may not be directly comparable to the Leaseurope Index Quarterly Survey. Various assets that are included in the Quarterly Survey results and which do not fit into one of the four categories used in the Segment Survey, such as renewable energy or big ticket assets, may not be taken into account in the Segment Survey results. Various costs and incomes related to international co-ordination of the business may also not be included, as they can be difficult to allocate to different asset types. In some cases the company figures for each asset type are estimates. For instance, if financial indicators split by assets include a variety of products, then the portion attributable to leasing needed to be estimated. Equally, if asset splits were only available for the total automotive portfolio, then the split by passenger cars and commercial vehicles had to be estimated in some cases.

¹ The financial ratios reported are profitability, cost/income, cost of risk and return on assets. Return on equity is not reported as it is not possible to divide company equity by asset type.

2018 SEGMENT RESULTS

The following paragraphs provide a brief overview of the results of the survey, focussing on the median values of the indicators. The results of the 2018 Segment Survey show that the leasing industry experienced mixed results in 2018, with real estate showing very strong performance. Of the total outstanding portfolio reported, 39% is attributed to equipment, 33% to passenger cars, 20% to real estate and 8% to commercial vehicles.

Profitability

Real estate experienced the biggest improvement in profitability (increasing by around 17 percentage points) between 2017 and 2018, reaching its highest annual rate in eight years of tracking this data. However, the profitability ratio decreased somewhat for other asset categories compared to 2017. When looking at quarterly data, all asset types experienced a slight decline of profitability in the second half of 2018. The profitability of real estate and commercial vehicles reached their peaks around the 50% mark in Q1 2018, while that of equipment and passenger cars achieved this level in Q2 2018.

Cost/income

Generally, the trend in cost/income ratios for the typical leasing company has been one of improvements since 2012, with fluctuations by asset type. In 2018, cost/income improved within the automotive sector, while equipment experienced some cost escalation. The cost/income ratio especially escalated in the fourth quarter of 2018, with equipment seeing the highest level above 50% and real estate being the lowest at 37%.

Cost of risk

Almost all asset types saw a declining cost of risk between 2017 and 2018 with an exception of equipment, which slightly increased by 4 basis points to 0.31% in 2018. In general, cost of risk ratios peaked in the second half of 2018 for all asset categories. However, automotive assets were able to maintain a fairly stable and low cost of risk throughout 2018, normally ranging from 0.1% to 0.2%.

Return on assets

Developments in return on assets were positive for equipment and real estate, but negative for automotive assets in 2018. It turned out to be a good year for real estate leasing, which reached its highest RoA recorded in the survey at 0.9% in 2018. RoA of both passenger cars and commercial vehicles stood at 1.1% in 2018, which fell from 1.7% and 1.4% respectively in 2017. As was the case for profitability, the first half of 2018 performed stronger than the second.

Please refer to the attached tables and graphs for more detailed information.

Fig. 1: Median Profitability Ratio by asset type, 2014 - 2018

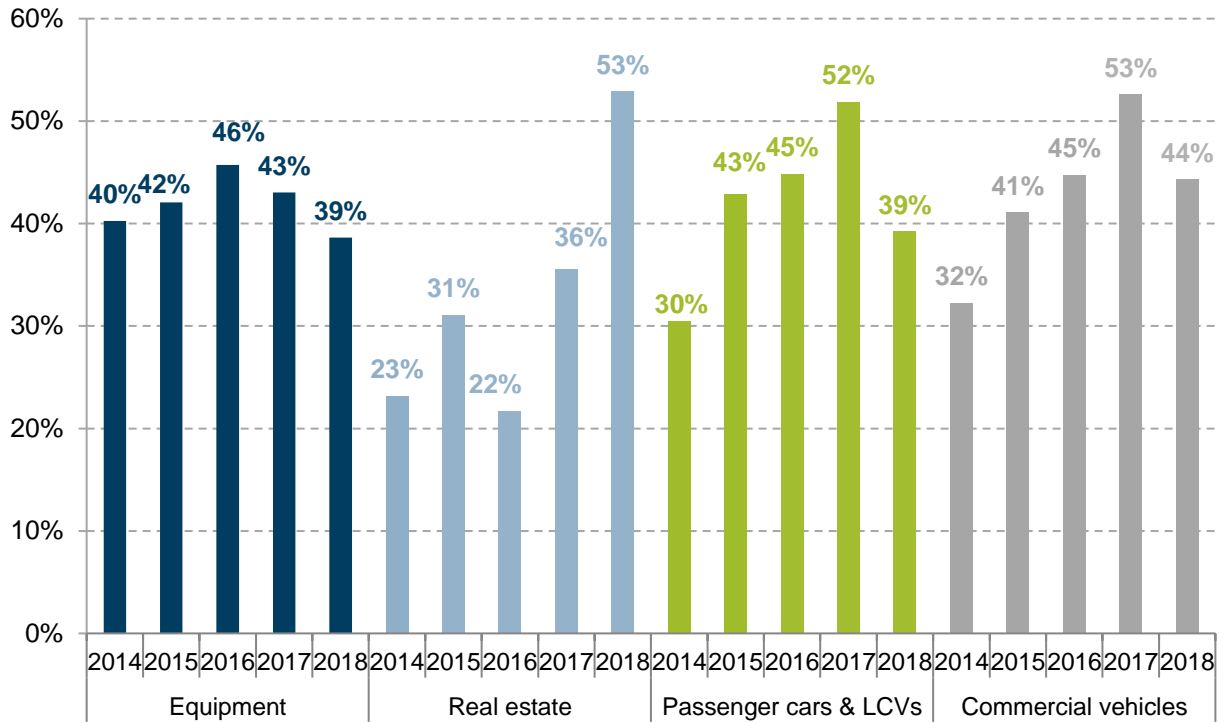


Fig. 2: Median Cost/Income Ratio by asset type, 2014 - 2018

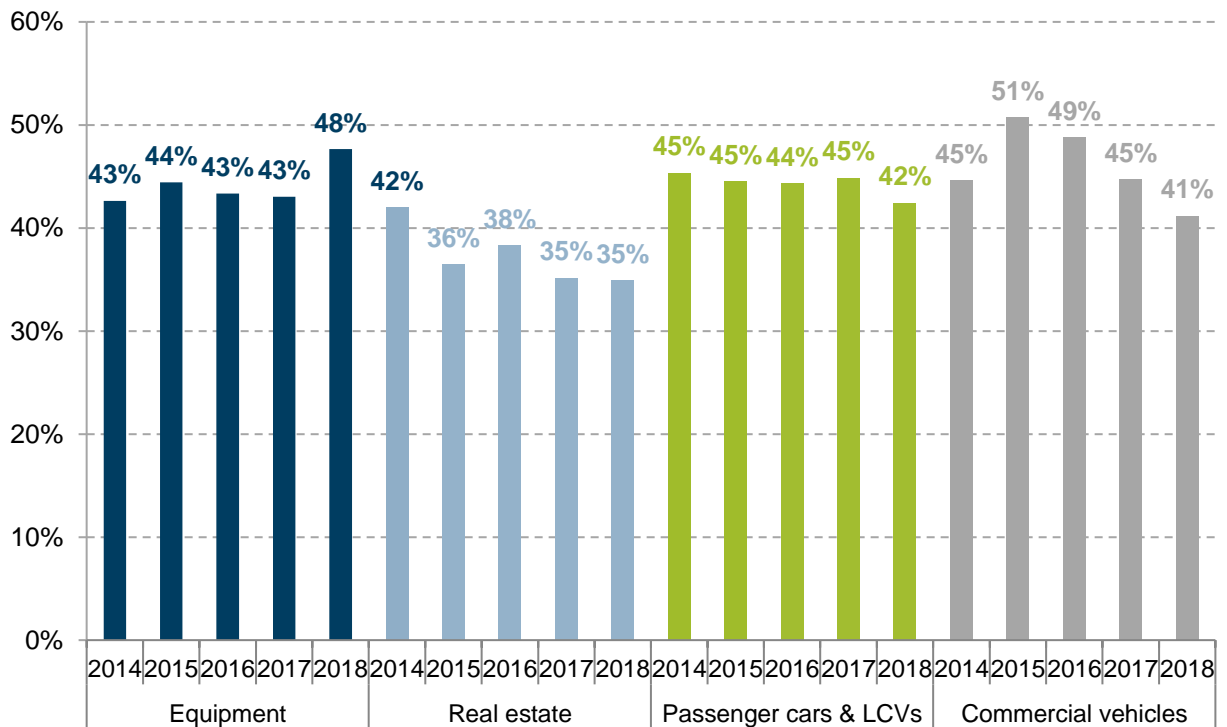


Fig. 3: Median Cost of Risk Ratio by asset type, 2014 - 2018

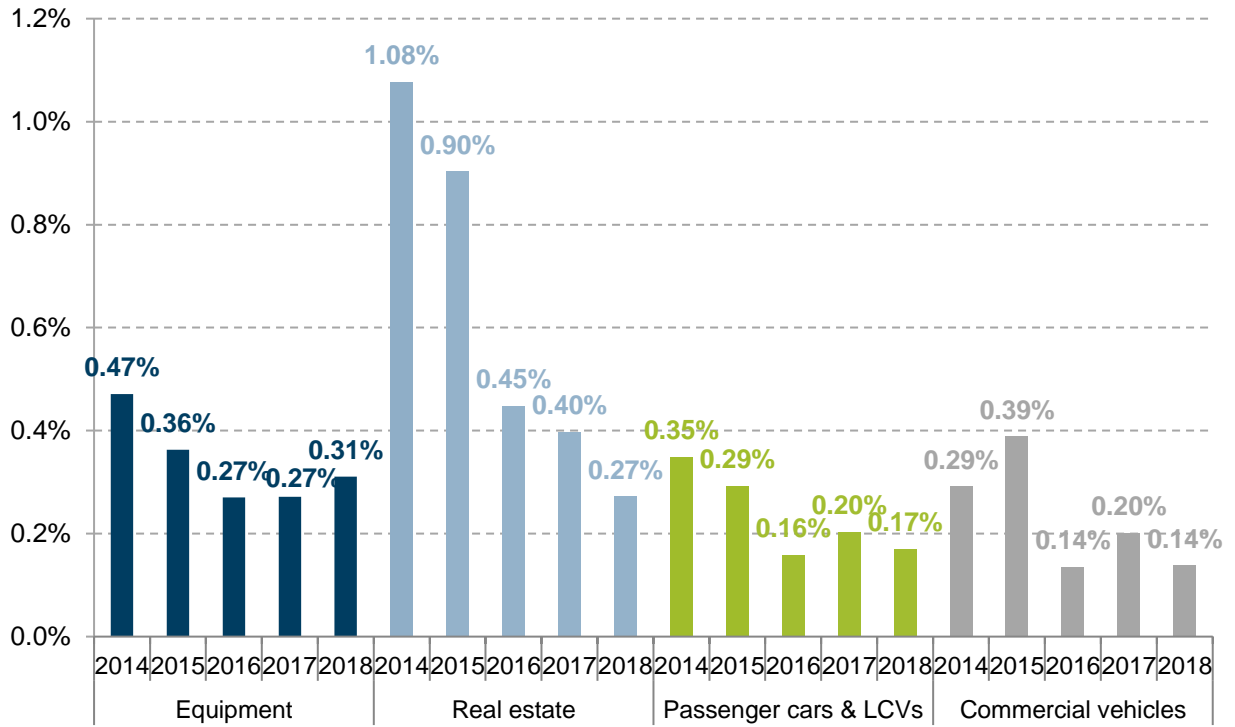


Fig. 4: Median Return on Assets Ratio by asset type, 2014 – 2018

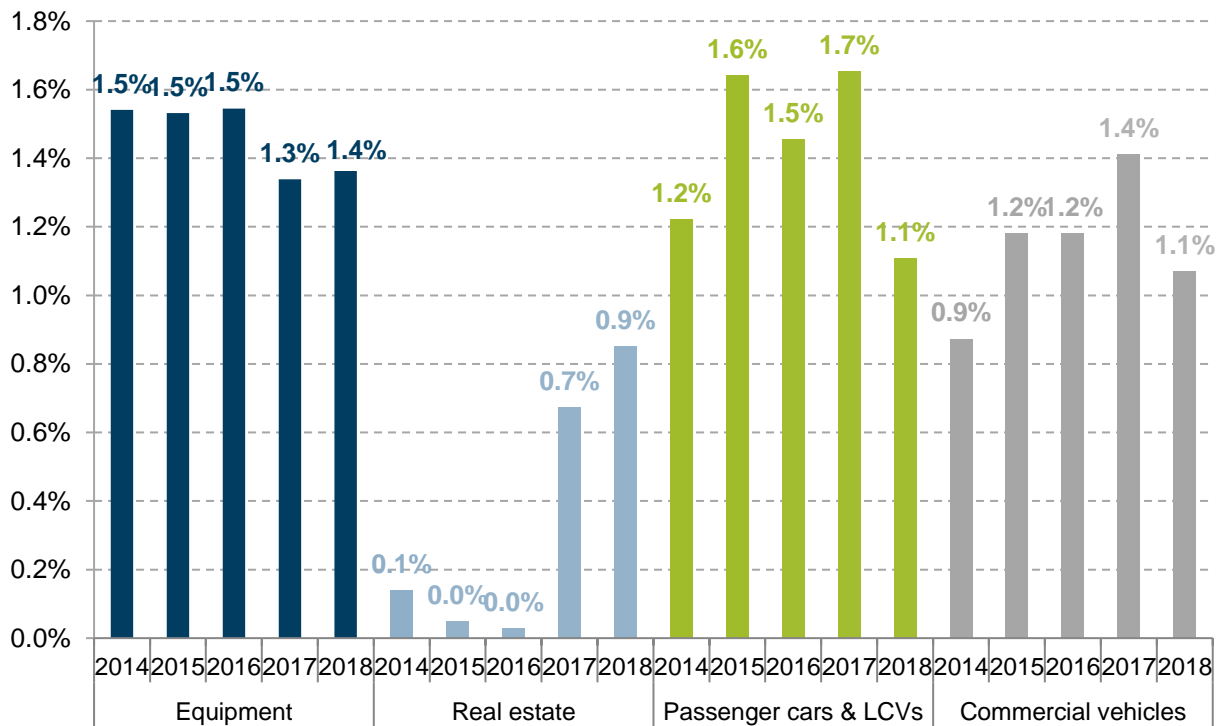


Fig. 5: Median Profitability Ratio by asset type, Q1 – Q4 2018

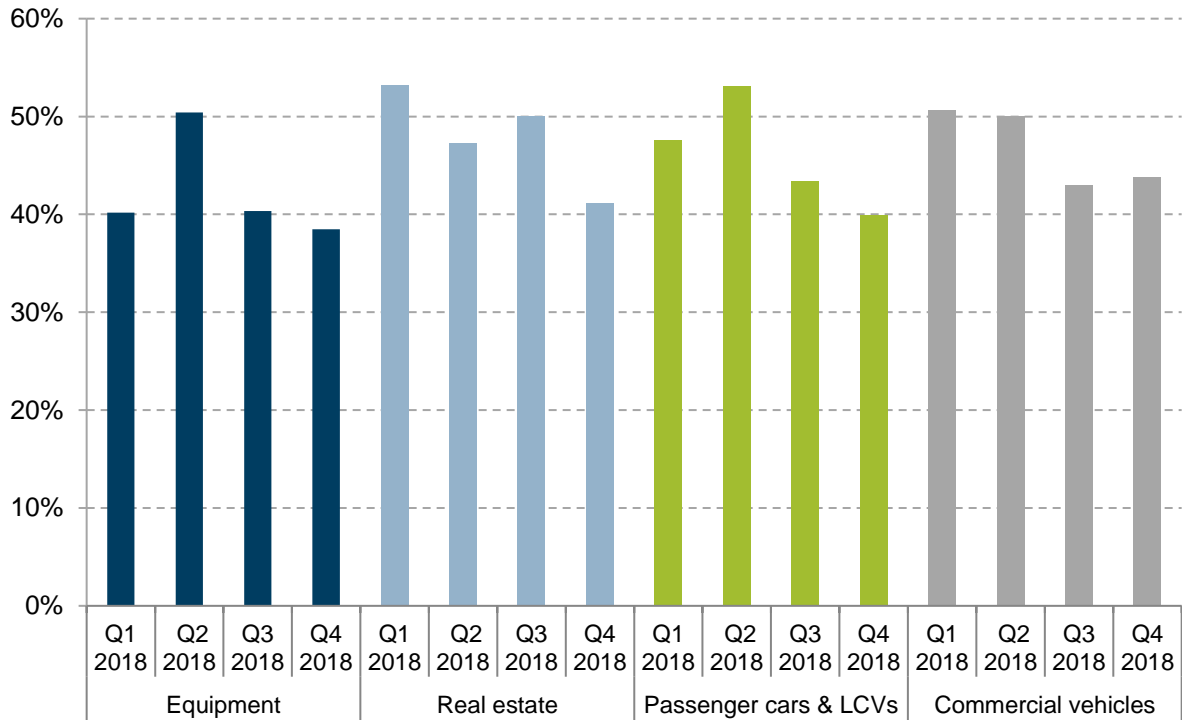


Fig. 6: Median Cost/Income Ratio by asset type, Q1 – Q4 2018

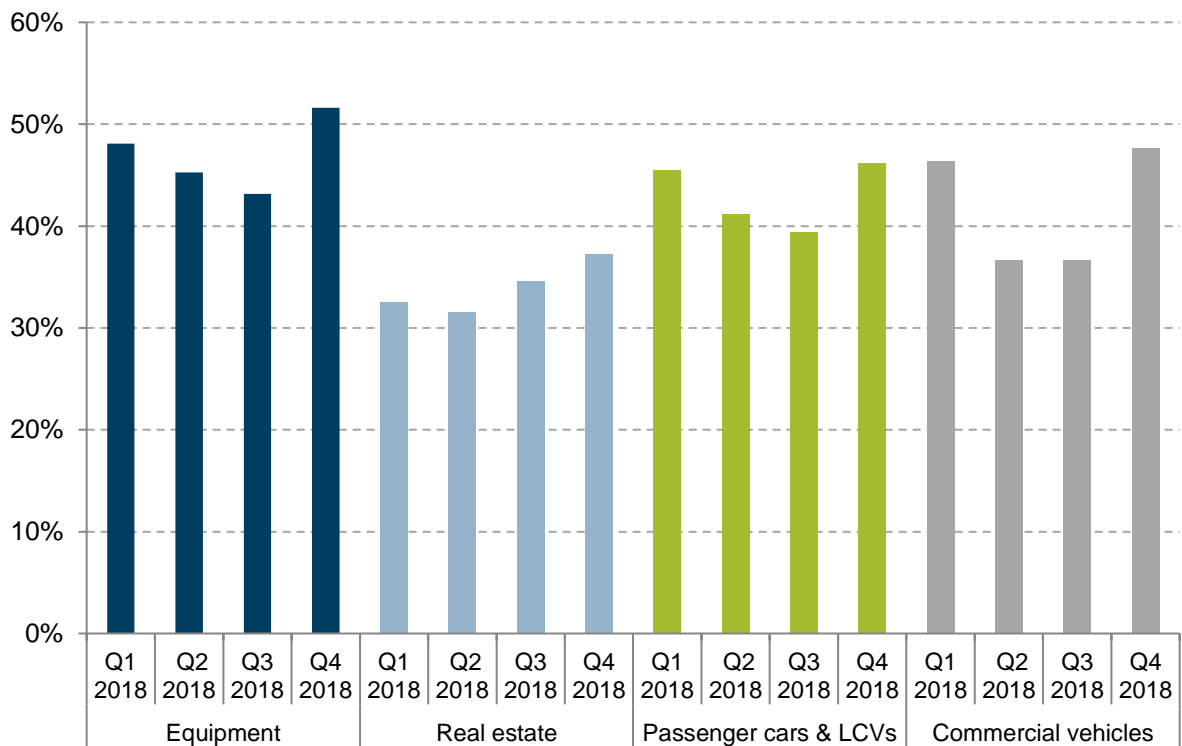


Fig. 7: Median Cost of Risk Ratio by asset type, Q1 – Q4 2018

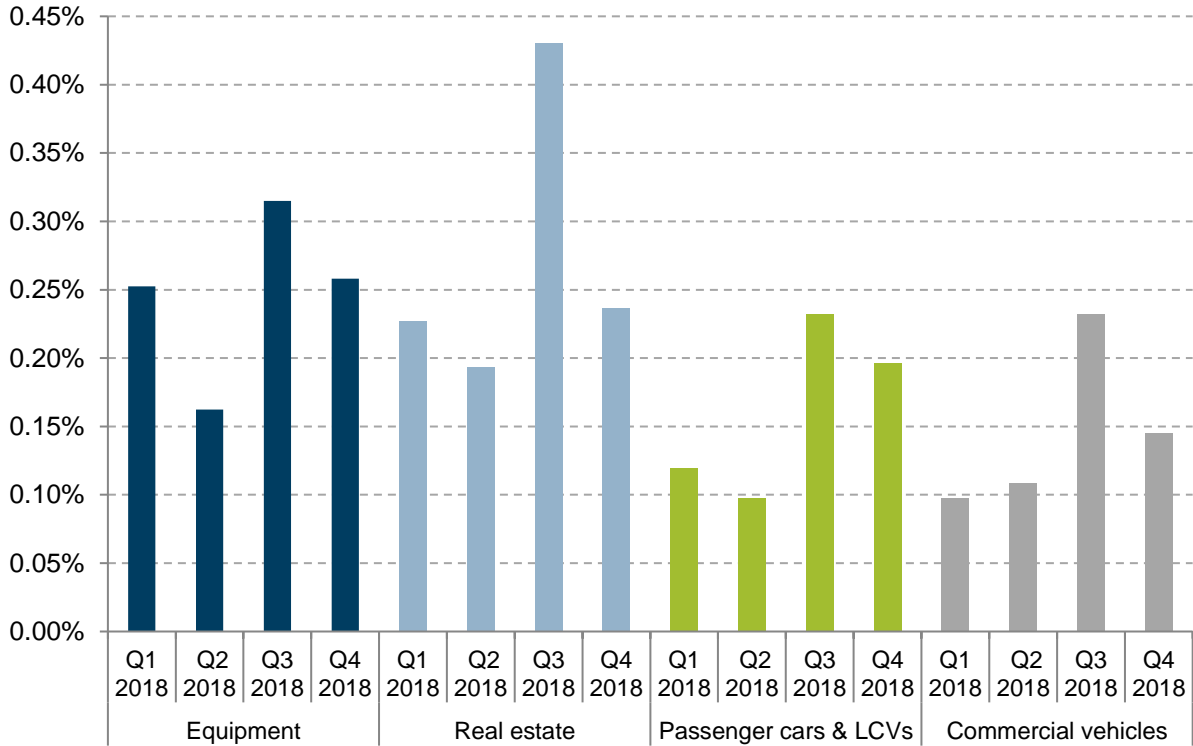


Fig. 8: Median Return on Assets Ratio by asset type, Q1 – Q4 2018

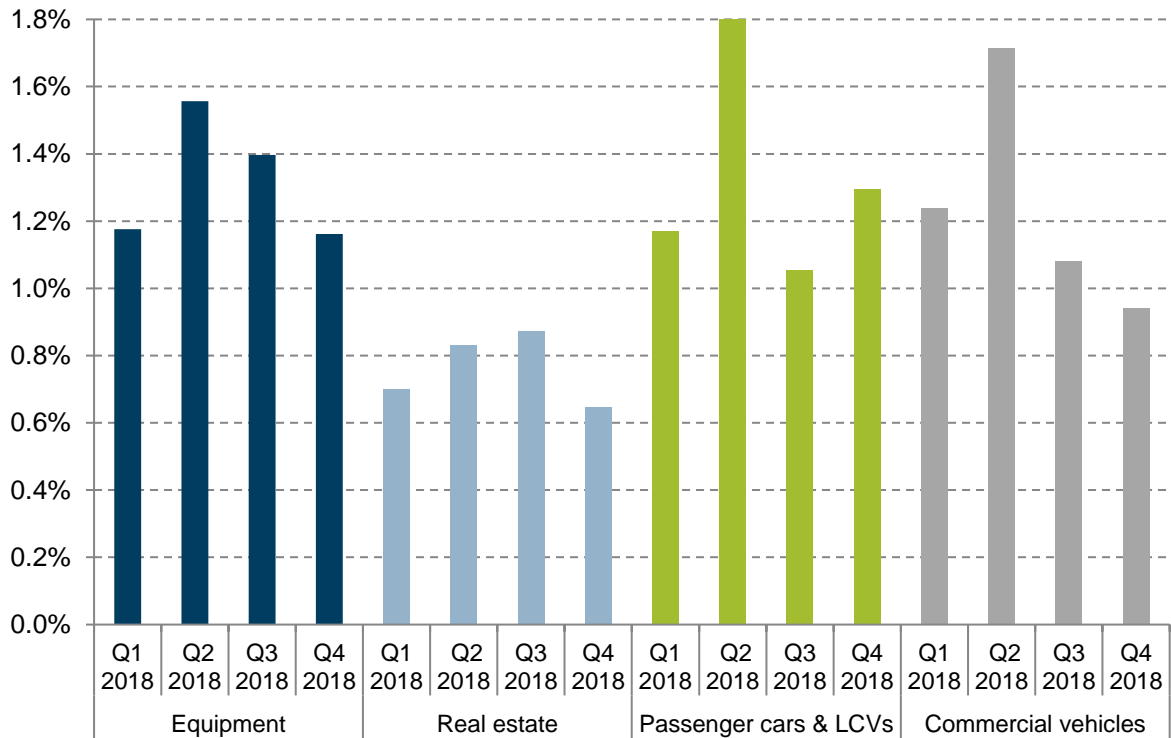


Table 1: Median Ratios² - Equipment

Median Ratios	2018					2017
	Median 2018 full year	Median Q4 2018	Median Q3 2018	Median Q2 2018	Median Q1 2018	Median 2017 full year
Profitability (%) - median of all companies' pre-tax profit as a % of total operating income	38.6%	38.5%	40.4%	50.4%	40.2%	43.0%
Cost/Income (%) - median of all companies' operating expenses as a % of operating income	47.6%	51.6%	43.1%	45.3%	48.1%	43.0%
Cost of Risk (%)* - median of all companies' loan loss provision (annualised) as a percentage of average portfolio over the period	0.31%	0.26%	0.32%	0.16%	0.25%	0.27%
Return on Assets (%)* - median of all companies' net profit before tax (annualised) as a percentage of average portfolio over the period	1.4%	1.2%	1.4%	1.6%	1.2%	1.3%

Table 2: Median Ratios - Real Estate

Median Ratios	2018					2017
	Median 2018 full year	Median Q4 2018	Median Q3 2018	Median Q2 2018	Median Q1 2018	Median 2017 full year
Profitability (%) - median of all companies' pre-tax profit as a % of total operating income	52.9%	41.1%	50.0%	47.3%	53.2%	35.5%
Cost/Income (%) - median of all companies' operating expenses as a % of operating income	34.9%	37.2%	34.6%	31.6%	32.5%	35.1%
Cost of Risk (%)* - median of all companies' loan loss provision (annualised) as a percentage of average portfolio over the period	0.27%	0.24%	0.43%	0.19%	0.23%	0.40%
Return on Assets (%)* - median of all companies' net profit before tax (annualised) as a percentage of average portfolio over the period	0.9%	0.6%	0.9%	0.8%	0.7%	0.7%

* denotes that the quarterly numerator (either loan loss provision or net profit) has been annualised in order to calculate the relevant ratio for each individual quarter.

² The median ratio shows the value at which half of the companies lie below this value and half lie above this value. It represents the 'typical' firm in the sample and is not as heavily influenced by outliers (extreme results) as the weighted average.

Table 3: Median Ratios – Passenger Cars & LCVs

Median Ratios	2018					2017
	Median 2018 full year	Median Q4 2018	Median Q3 2018	Median Q2 2018	Median Q1 2018	Median 2017 full year
Profitability (%) - median of all companies' pre-tax profit as a % of total operating income	39.2%	39.9%	43.4%	53.1%	47.6%	51.9%
Cost/Income (%) - median of all companies' operating expenses as a % of operating income	42.4%	46.2%	39.4%	41.2%	45.5%	44.9%
Cost of Risk (%) * - median of all companies' loan loss provision (annualised) as a percentage of average portfolio over the period	0.17%	0.20%	0.23%	0.10%	0.12%	0.20%
Return on Assets (%) * - median of all companies' net profit before tax (annualised) as a percentage of average portfolio over the period	1.1%	1.3%	1.1%	1.8%	1.2%	1.7%

Table 4: Median Ratios – Commercial Vehicles

Median Ratios	2018					2017
	Median 2018 full year	Median Q4 2018	Median Q3 2018	Median Q2 2018	Median Q1 2018	Median 2017 full year
Profitability (%) - median of all companies' pre-tax profit as a % of total operating income	44.3%	43.8%	43.0%	50.0%	50.7%	52.6%
Cost/Income (%) - median of all companies' operating expenses as a % of operating income	41.2%	47.6%	36.7%	36.7%	46.4%	44.7%
Cost of Risk (%) * - median of all companies' loan loss provision (annualised) as a percentage of average portfolio over the period	0.14%	0.15%	0.23%	0.11%	0.10%	0.20%
Return on Assets (%) * - median of all companies' net profit before tax (annualised) as a percentage of average portfolio over the period	1.1%	0.9%	1.1%	1.7%	1.2%	1.4%

* denotes that the quarterly numerator (either loan loss provision or net profit) has been annualised in order to calculate the relevant ratio for each individual quarter.

Table 5: Weighted Average Ratios³ - Equipment

Weighted Average Ratios	2018					2017
	Average 2018 full year	Average Q4 2018	Average Q3 2018	Average Q2 2018	Average Q1 2018	Average 2017 full year
Profitability (%) - average of all companies' pre-tax profit as a % of total operating income	42.1%	36.4%	41.3%	49.3%	42.0%	40.0%
Cost/Income (%) - average of all companies' operating expenses as a % of operating income	49.5%	53.3%	48.5%	46.0%	50.4%	51.4%
Cost of Risk (%)* - average of all companies' loan loss provision (annualised) as a percentage of average portfolio over the period	0.29%	0.38%	0.35%	0.17%	0.28%	0.28%
Return on Assets (%)* - average of all companies' net profit before tax (annualised) as a percentage of average portfolio over the period	1.4%	1.1%	1.3%	1.6%	1.3%	1.4%

Table 6: Weighted Average Ratios - Real Estate

Weighted Average Ratios	2018					2017
	Average 2018 full year	Average Q4 2018	Average Q3 2018	Average Q2 2018	Average Q1 2018	Average 2017 full year
Profitability (%) - average of all companies' pre-tax profit as a % of total operating income	21.7%	7.1%	2.9%	35.3%	39.7%	27.5%
Cost/Income (%) - average of all companies' operating expenses as a % of operating income	37.7%	43.1%	36.2%	33.8%	37.8%	36.0%
Cost of Risk (%)* - average of all companies' loan loss provision (annualised) as a percentage of average portfolio over the period	0.88%	1.01%	1.35%	0.60%	0.54%	0.65%
Return on Assets (%)* - average of all companies' net profit before tax (annualised) as a percentage of average portfolio over the period	0.3%	-0.03%	-0.1%	0.6%	0.6%	0.4%

* denotes that the quarterly numerator (either loan loss provision or net profit) has been annualised in order to calculate the relevant ratio for each individual quarter.

³ Leaseurope calculates weighted average ratios based on the data provided by participating companies. The profitability and cost/income ratios are weighted by new business volumes over the relevant period. For example, each company's individual profitability ratio is weighted by its new business over the quarter to arrive at the weighted average ratio shown in the table. The cost of risk, RoA and RoE ratios are weighted by the average portfolio over the relevant period.

Table 7: Weighted Average Ratios – Passenger Cars & LCVs

Weighted Average Ratios	2018					2017
	Average 2018 full year	Average Q4 2018	Average Q3 2018	Average Q2 2018	Average Q1 2018	Average 2017 full year
Profitability (%) - average of all companies' pre-tax profit as a % of total operating income	44.4%	39.1%	42.8%	50.1%	44.5%	43.5%
Cost/Income (%) - average of all companies' operating expenses as a % of operating income	52.2%	56.1%	55.8%	47.2%	51.8%	54.0%
Cost of Risk (%)* - average of all companies' loan loss provision (annualised) as a percentage of average portfolio over the period	0.19%	0.20%	0.22%	0.12%	0.19%	0.12%
Return on Assets (%)* - average of all companies' net profit before tax (annualised) as a percentage of average portfolio over the period	2.6%	2.3%	2.3%	3.0%	2.7%	3.0%

Table 8: Weighted Average Ratios – Commercial Vehicles

Weighted Average Ratios	2018					2017
	Average 2018 full year	Average Q4 2018	Average Q3 2018	Average Q2 2018	Average Q1 2018	Average 2017 full year
Profitability (%) - average of all companies' pre-tax profit as a % of total operating income	42.7%	33.1%	44.2%	37.2%	51.6%	40.9%
Cost/Income (%) - average of all companies' operating expenses as a % of operating income	48.6%	53.7%	45.9%	48.7%	46.6%	51.2%
Cost of Risk (%)* - average of all companies' loan loss provision (annualised) as a percentage of average portfolio over the period	0.19%	0.20%	0.22%	0.12%	0.19%	0.19%
Return on Assets (%)* - average of all companies' net profit before tax (annualised) as a percentage of average portfolio over the period	1.3%	1.1%	1.3%	0.3%	1.5%	1.4%

* denotes that the quarterly numerator (either loan loss provision or net profit) has been annualised in order to calculate the relevant ratio for each individual quarter.

About the Leaseurope Index

Who conducts this survey?

Leaseurope conducts this survey. Individual companies report their figures for each indicator to Leaseurope, which aggregates the results on a confidential basis.

What is the purpose of this survey?

The purpose of the Leaseurope Index is to provide timely and regular information on the European leasing and automotive rental market. This is the only survey to report statistics on both volume of business and value creation metrics at European level.

What indicators are covered by the Leaseurope Index?

The survey tracks operating income, operating expenditure, loan loss provision, pre-tax profit, portfolio of leased assets and new business volumes for each quarter.

Definitions:

- 1) **Total operating income:** Net interest income + net fee and commission income + net insurance result + trading profit + other net income (including rental income net of depreciation on operating leases and profit on sales of assets linked to leasing activities)
- 2) **Total operating expenses:** includes inter alia staff costs, other administrative expenses, depreciation and amortisation
- 3) **Loan loss provision:** Net loan loss provision - write offs + recoveries over the period (including write-offs/recoveries of assets)
- 4) **Pre-tax profit:** Total operating income – costs – provisions
- 5) **Portfolio at end of period:** Total portfolio of leased assets including outstanding loans to customers and assets on operating lease at the end of each period (non-performing loans are included). The figures reflect the depreciated value of assets at the end of the period.
- 6) **New business volumes:** Total value of new contracts approved & signed by both sides (lessor and lessee) during the period during the reporting period, excluding VAT and finance charges

Based on the data provided in millions of euro by each company, Leaseurope calculates weighted average ratios, defined as follows:

Profitability ratio: weighted average of all companies' pre-tax profit as a % of total operating income. The weight used is the new business volume for the relevant period.

Cost / Income ratio: weighted average of all companies' operating expenses as a % of operating income. The weight used is the new business volume for the relevant period.

Cost of risk ratio: weighted average of all companies' loan loss provision (annualised) as a percentage of average portfolio over the period. The weight used is the average portfolio over the period. Average portfolio is calculated as the mean of the value of the portfolio of leased assets at the beginning and end of each period.

Return on assets ratio: weighted average of all companies' net profit (annualised) as a percentage of average portfolio over the period. The weight used is the average portfolio over the period. Average portfolio is calculated as the mean of the value of the portfolio of leased assets at the beginning and end of each period.

Which companies take part in the survey?

A sample of large European lessors contribute data for the Segment Survey. This sample is broadly representative of the European market in terms of geographic coverage and asset coverage. The sample represents a significant share of the total European leasing market. Please see the Leaseurope **2017 Ranking survey** for more information about European leasing companies in general.

How should the survey results be interpreted?

The survey tracks trends in key performance indicators at European level. The results are only presented in aggregate and no inferences can be made about any individual company's performance based on this aggregate data. Extreme care should be taken in comparing individual company performance with the Leaseurope Index, which spans a sample of lessors active in different geographic markets and sectors, and using various distribution channels.

Please note that the results of the Segment Survey may not be directly comparable to the Leaseurope Index Quarterly Survey. Various assets that are included in the Quarterly Survey results and which do not fit into one of the four categories used in the Segment Survey, such as renewable energy or big ticket assets, may not be taken into account in the Segment Survey results. Various costs and incomes related to international co-ordination of the business may also not be included, as they can be difficult to allocate to different asset types. In some cases, the company figures for each asset type are estimates. For instance, if financial indicators split by assets include a variety of products, then the portion attributable to leasing needed to be estimated. Equally, if asset splits were only available for the total automotive portfolio, then the split by passenger cars and heavy commercial vehicles had to be estimated in some cases.

For this survey, Leaseurope aggregates self-declared information. While the Leaseurope Secretariat monitors the plausibility of the data, this is not audited data. As such, the Leaseurope Index should only be used for indicative purposes and care should be taken in interpreting the results. Although the sample is broadly representative, care should be taken in making inferences about market trends for the industry as a whole.

What is the geographic scope of this survey?

Consolidated figures are reported for the entire European activities of the participating companies. Europe is defined in the widest sense as EU28 + EFTA + other countries e.g. Turkey, Ukraine, Russia, Serbia, Croatia etc. Each company reports figures in euro regardless of which countries they operate in or which currencies they report in.

What is meant by "leasing"?

The term "leasing" is used in its broadest sense, covering hire purchase, finance and operating leasing which includes long term rental. Leasing is defined according to International Financial Reporting Standards (IAS17).

When will the next Leaseurope Index Segment results be released?

The segment survey is conducted on an annual basis. For future editions of this survey, Leaseurope aims to publish the results on the **Leaseurope Index website** during April each year.

Disclaimer

Please note that the information contained in the Leaseurope Index is of a general nature. Nobody should act upon such information without first seeking appropriate professional advice and after a thorough examination of a particular situation. Neither Leaseurope nor participating companies can be held responsible or liable for any losses or damages of any kind arising out of or in connection with the use of the information contained in the Leaseurope Index.