

March 2017

Ready for Growth: A Conversation with Vincent Belcastro

Vincent Belcastro Group Head, Commercial Equipment Finance
vincent.belcastro@santander.us



Your company's equipment needs are mission critical: it's how you produce, deliver, serve clients, generate revenue, and move your business forward. Planning and budgeting for increasing or updating your equipment requires not only an understanding of the latest tax strategies and government regulations, but also how ever-changing technologies may affect how you stay competitive in this demanding economy. Here, Santander's Commercial Equipment Finance head and industry veteran Vince Belcastro takes on our Q&A about the issues companies like yours face now—as well as what may lie ahead.

As decision makers evaluate their need for equipment financing, what are the trends, challenges, or opportunities they should consider? Moreover, are there factors in the decision-making process companies tend to overlook?

There's a lot of technological advancement occurring right now in the manufacturing equipment sector and it's developing at a faster pace than historical standards. To compete in a highly competitive environment today, companies need to continually review their equipment needs and leverage new technologies to help ensure that lean manufacturing targets are met. Upgrading equipment is often one way to help meet these targets.

While this technological revolution has impacted the manufacturing industry, it's also a challenge for other sectors like transportation, medical, and retail to name a few. It has become critical for companies to implement the latest technologies to ensure they're manufacturing and delivering goods at the highest possible standards needed to compete on a global scale.

It's a good business practice to explore equipment financing strategies other than just owning the equipment. Companies might want to look at equipment usage patterns when they are assessing their equipment financing needs because there are models that base equipment purchases on usage patterns. Think of it like a pay-to-play environment, where instead of buying machines outright, you pay for the amount of usage you'll put on the equipment, whether it's production cycles, number of copies, or number of miles. I do see the industry evolving to more of this managed solution model versus ownership for select types of equipment.

I recommend decision makers spend time with their procurement and fleet managers to understand how they're using the equipment and seeing if any resulting usage patterns develop. They can then meet with their equipment bankers to determine flexible and customized financing solutions that will meet their equipment financing needs.

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In addition to exploring equipment usage patterns, tax considerations and strategies are also often part of the analysis when a company is assessing its equipment financing needs. For instance, you may choose to enter into a true lease, where a bank will effectively own the equipment. You get 100% financing, use of the equipment, the benefit of having it off-balance sheet as well as lower monthly payments when compared to a loan.

Tell us how the accounting rule changes in 2019 will impact the equipment finance industry—and if there are other tax planning changes that companies should know about.

Equipment finance—and the financial industry as a whole—is bracing for the new lease accounting rules in 2019, which will cause traditional off-balance sheet financing products, like equipment leases with a fair market value purchase option, to come on-balance sheet, and be recorded as a liability. This accounting rule change is intended to deliver more transparency and a clearer view of a company's overall financial picture to investors and other interested parties.

That's not to say the accounting rule change will take away depreciation benefits and tax treatment from a company that finances its acquisition of equipment. But it will present a new challenge.

The flipside of that is, through the lobbying efforts of industry advocacy groups like the Equipment Lease Financing Association (ELFA), we've ended up in a better place than originally predicted. We have the ELFA team to thank for negotiating our industry through a tough situation, and really promoting businesses that use equipment.

Another hard-fought battle ELFA helped push through in 2015 was when Congress signed three more years of tax extenders into the overall 2016 budget. This law extends the use of bonus depreciation in equipment acquisition through 2019. Therefore, companies that undertake equipment purchases before 2019 will enjoy significant tax benefits and may want to consider accelerating those equipment purchases to take advantage of the opportunity to depreciate their equipment over a shorter time period.

What are some of the toughest issues your clients face right now? How are they taking action to help solve those issues?

This varies by industry; some face bigger challenges than others, of course. It's no secret that energy continues to be in a retraction mode and remains challenged from a financing perspective as the sector's equipment values have bottomed out because there's a glut on the market. The same holds true for some mining businesses, especially coal, metals and other commodity-based businesses.

It's a tough environment for companies in those industries. And frankly, they have to think about how to finance those assets because, given the downturn, traditional lenders often have a tough time lending to them. This has led to the rise of alternative lenders and captive financiers who have assumed the risk that banks and other regulated institutions can no longer underwrite. That said, I do think that the downturn for these industries is easing, and over the next few years, banks and regulated lenders may see value in reentering the space. These are very cyclical industries, so equipment values commonly appreciate as industry performance improves.

It's also evident that the industrial model is evolving in a significant way—again, through technology. E-retailing is the perfect example. We all see how technology has caused a marked shift in the way retailers target clients. Amazon and similar e-retailers continue to grow as online sales expand. This evolution continues to cause contraction in the retail space away from a traditional brick and mortar model. The new e-retailing model will continue to grow, and the technology and equipment needs supporting its infrastructure will grow along with it.

Do you see any other potential changes that could impact the equipment financing ecosystem?

Could there be an Uber solution to trucking and transportation? I believe we're on the very early cusp of it. Think back to the pay-to-play solution I mentioned before, where for certain types of equipment, you only pay for equipment based on usage patterns. It remains to be seen, but over time I think there will be an impact.

Moreover, in July of 2016 for the first time in U.S. history, there was a driverless tractor-trailer on the road that delivered 45,000 cans of beer from one point in Colorado to another. For the time being, it's a blip. But it's potentially another indicator of how technology could keep us changing, moving and driving forward. It really is an exciting time to watch how technological advancements are changing the traditional operating models of middle-market businesses and their equipment financing needs.

For businesses that rely on equipment to help meet their goals and help them grow, the key to growth is continual review: of the equipment itself, the processes and patterns of the latest technologies and upgrades. It's also about reviewing and rethinking your financing strategy, whether it's exploring alternatives to equipment ownership, taking a harder look at tax considerations (and opportunities) or identifying trends in order to make strides to take on the future.



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