# Financing of Palletising equipment

**OPEX and CAPEX**

Financing investments in automatic palletising

palletising

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**Leasing has become a strong alternative to buying palletising equipment**

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# Introduction

As palletising equipment is considered as part of a production line, the generally accepted logic seems to be that you need to invest in this type of machinery.

However, increased standardisation and the reduced time required for (de)installation have made it possible to rent or lease palletising equipment.

By doing so, flexibility is created, together with taking advantage of several other benefits.

In this white paper, we describe the pros and cons of alternative trajectories to simply buying palletising equipment.

# Financial lease and leasing in general

Typical palletising projects have an investment level varying between 80,000 and 200,000 euros per SKU, depending on line speed, location, footprint and other factors.

If you do not want to spend such a considerable amount of money upfront, leasing is an alternative.

With a lease option, you can let a financial institution (or the supplier) make the investment, while you only pay monthly instalments.
At the end of the leasing period (for palletising, typically 5 to 7 years), you are the full owner of the equipment and will be able to use it until the end of its economical or technical lifetime.
In the USA, this form of financing is often termed buy-out leasing. The residual value is typically zero at the end of the leasing period, but you can agree on a different value in advance. A higher residual value decreases the monthly instalments, but increases the amount you have to pay at the end.
Typically, the monthly fees are calculated using the annuity method.

This type of leasing resembles taking out a loan from a financial institution, with a pledge as the security behind it. In most cases, your own bank will be the preferred partner to provide a financial lease, as most probably, other equipment will already be pledged. Your own bank also has the best overview of your financial situation, and does not have to calculate the same risk percentages. However, working with another provider can provide an alternative line of credit.

In a financial lease model, all relevant costs (bespoke engineering, installation and commission, transport, peripheral equipment, etc.) can be included. There is no need to make an upfront payment (except for a deposit of a few months lease).

# Operational lease

If you want a more flexible leasing option, an operational lease (or vendor lease) is an alternative. The basic form of operational lease has a model that is comparable with a financial lease; however, there are three important differences:

1. You are the user, not the owner;
2. There is more flexibility regarding leasing periods and residual values (and therefore monthly fees);
3. An operational lease is only applicable for those parts of the equipment that can be reused.

Operational leasing of palletising systems does not cover bespoke conveyors or services such as installation and commissioning. These have to be paid in full at the start of the leasing period.

At the end of the leasing period, the equipment can be:

a. Bought at the Fair Market Value;

b. Leased again (operational or financial) for any agreed time, typically a further 1 to 3 years;

c. Returned to the supplier (with or without costs, subject to the agreement).

Leasing options (financial and operational) can also be created for older equipment. In that case, the leasing company purchases the equipment (at the book value) and offers a leasing agreement to release some cash. This is sometimes known as sale and lease back.

# Palletising as a Service (PaaS)

When ultimate flexibility is required, you can subscribe to the use of a palletiser. The machine will be delivered, installed and commissioned by the supplier. The only two things that you have to do are to use it and to pay the (monthly) fees. The supplier takes care of maintenance, repairs, spare parts and routine inspections. The subscriber buys the right to use the equipment for a variable period of time.


This model is also termed a full operational lease/rental, and payments can be scheduled monthly or quarterly. Alternatively, it can be based on volume as a payment per product, although this model only works within certain (minimum-maximum) volume boundaries and can be ideally suited to match peaks in seasonal production volume.

With PaaS periods varying from 3 months to multiple years, the equipment can be used when needed and returned at another time. PaaS is a more costly method of leasing, but offers ‘hands off’ full flexibility and full service at fixed costs.

These contracts can usually be terminated with a notice period of 3 months. At the end of the subscription period, the options are the same as with operational leasing.

# Buy and sell back

Sometimes it is known in advance that the equipment will only be needed for a specific length of time. This will be the case if, for example, you want to benefit from automatic palletising while waiting for a larger strategic investment at a later date. Or there may be some uncertainty regarding the solution or technology, and you want to try it before you keep the equipment.

For such situations, a buy-and-sell-back model may be appropriate. The process of acquiring the equipment is initially identical to a normal investment situation. The major difference is that the supplier commits to taking back the equipment after a pre-agreed time, and at a pre-agreed price. As all the services involved in such an investment (engineering, project management, installation, commissioning, etc.) no longer have a value at the time the equipment is bought back, the repurchase price tends to be lower than most people may anticipate.

The other way around, a sell-and-lease-back model is sometimes used to optimise cash flow. A piece of equipment is sold to a financial institution that leases it back to the company. The equipment stays where it was, and capital is made available for other purposes.

# Comparison

Good to know:

**CAPEX**

Capital expenditure comprises funds used by a company to acquire or upgrade physical assets, such as property, commercial buildings or equipment. It is often used to undertake new projects or investment by a company.

**OPEX**

An operating expense is a category of expenditure that a company incurs as a result of performing its normal business operations. Leasing changes a CAPEX investment (with depreciation) into an OPEX.

**Residual value**
How much a fixed asset is worth at the end of its lease, or at the end of its useful life from a bookkeeping (= depreciation) standpoint. It can easily be calculated.

| | buying/investing | buy and sell back | financial lease | basic operational lease | palletising as a service |
|---|---|---|---|---|---|
| credit check needed | no (unless you borrow the money) | no (unless you borrow the money) | yes | yes | yes |
| ownership of the equipment and related risks (e.g. obsolesence) | buyer/user | buyer/user for the term of the agreement | user but pledged | supplier | supplier |
| actions at the end of leasing period | n/a | option to keep or return at pre-agreed price | buy against residual value | option to buy at fair market value, return or continue to lease (financial or operational) | option to buy at fair market value, return or continue to lease (financial or operational) |
| typical duration fo the contract | n/a | 6 months to two years | 5 to 7 years | 2 to 5 years | from 3 months to 7 years |
| contract partner | supplier | supplier | bank or other financial institution | dedicated financial institution or supplier | supplier or dedicated financial institution |
| maintenance responsibility | user | user | user | user | supplier |
| benefits | no monthly instalments and financing costs | no monthly instalments and financing costs; no obligations after agreed period | no cash upfront needed | | |
| applicable | all equipment | only reusable equipment with short (de)installation times | all equipment | only reusable equipment with short (de)installation times | only reusable equipment with short (de)installation times |
| cash needed at the start of usage | 100% of the investment | 100% of the investment | typically 3 months pre-paid fees | typically 3 months pre-paid fees plus all non-reusable equipment | typically 3 months pre-paid fees plus all non-reusable equipment |

# Conclusion

Every situation is different, and in different circumstances, other solutions can be beneficial.

Financial, basic operational lease, palletising as a service and buy-and-sell-back, in all their variants, can help by reducing the cash needed for investments. This allows users to gain a competitive advantage through increased flexibility and productivity, all at a moderate cost.

# How can we help you?

CSi already has 15 years of experience with financing models around palletising equipment. Based on this history, CSi is fully able to analyse your situation and advise you on the best way forward regarding these financing options. CSi is not tied to a bank or financial institution and can therefore offer independent advice.

If you would like to receive more information, do not hesitate to contact us.

CSi industries B.V.

Lissenveld 41

4941 VL Raamsdonksveer

The Netherlands

Tel. +31 162 575 000 or info@CSiportal.com