Starting a Leasing Company from Scratch

Chris Enbom
CEO
 Allegiant Partners Incorporated
What did I start?

- Allegiant Partners began in 1998
- It took me a year to come up with a business plan and start a portfolio
- Allegiant is a “story credit” lender ($30 - 250k transactions) sourcing indirect
- We did not get bank financing until mid-2000
- Now have $20 million in lease receivables, 8 employees
- $3 million revenue 2003, $4.5 million 2004
- Profitable each year since inception
Why are you starting a company?

• Big ego, tired of having a boss, want control, have a better mousetrap?
• Be careful - you may end up starting a company
• Entrepreneurial spirit is excellent, but spirit alone cannot overcome the marketplace
• The marketplace is highly competitive, thus business plan and niche must be solid
• All competitive advantages and disadvantages flushed out and understood
What is your model?  
(Holds for vendor and non vendor-driven transactions)

• Gain on sale
  • Laying transactions off balance sheet allows for greatest growth
• Pitfalls include:
  • income “delusion” if volume increases quickly which ramps up admin staff (what happens when volume falls off?)
  • Transactions being “sold off” often involve continuing servicing and loss guarantees (what happens when large numbers of transactions begin to go bad?)
What is your model? (con’t)
(Holds for vendor and non vendor-driven transactions)

• Residuals
  • It takes a long time to build up a portfolio
  • Equipment expertise necessary

• Earnings over time
  • It takes a long time to build up a portfolio
  • Cost of funds disadvantage with banks

• Fee-based (no underwriting risk)
  • Generally volume-based and human capital intensive
  • Need high degree of incentive comp, organization, execution skills
First Steps

• Business Plan
  • Must be logical, have modeling back-up
• Model - are there companies similar to the one you want to start?
• Are you really educated regarding your model/niche?
• Equity
  • Where does the money come from
    • Yourself/Friends and Family creates family pressure
  • Institutional/Angel money wants a specific, fairly short-term exit, hard to come by without very large start-up
• Debt
  • Most lenders require at least 2-3 years of history and audited financial statements
  • History of profitability
  • Catch-22
You have money, what now?

• How are you sourcing transactions?
  • Marketing plan, people, etc.
  • The problem with over-promising
  • Can you really deliver? Do you have the funds and the systems in place?
• Can you afford to hire quality salespeople?
  • Can you afford not to?
• Are you marketing to vendors, end-users or brokers/leasing companies?
Credit

• Who is making the credit decisions?
• How is that person’s track record?
• Credit policies and procedures - in place and in use?
• Do you have the systems that allow you to execute your policies and procedures?
• How much financial disclosure is required?
• How careful are you, and how does it affect turn-around and client satisfaction?
Systems

• How much are you willing to pay?
• We started with an inexpensive back-end that worked, but needed many workarounds
• We started with an inexpensive front-end (after a couple years with no front-end), and quickly outgrew it
• We just spent “serious” money for a system from McCue systems (both front and back-end)
Systems (con’t)

• Work around issues
  • G/L integration
  • Setting and applying late charges
  • Double cash entries
  • Borrowing base information
  • Reporting to credit agencies
  • Automatic pull of personal/business credit without going into independent systems
  • Tracking of vendor, guarantor, asset information
  • Borrowing base, delinquencies and charge-offs, etc

• G/L System - how sophisticated does it need to be?
Senior People

• In the perfect world, you would have:
  • CFO who understands general reporting, lease accounting, sales tax reporting, property tax reporting, fund raising, control issues, etc.
  • Lawyer with bankruptcy, general corporate, securities law experience
  • Head of sales and marketing with deep leasing industry experience
  • COO/Chief credit officer who has run a large leasing company and understands systems, control procedures, etc.
  • An IT professional
• How do you get all this expertise from a limited budget?
Recurring Issues

• Costs have been higher than projected - predominantly personnel related
  • Needed more people than originally projected
  • Only hire highly qualified personnel, expensive in the Bay Area
• We outgrew our front and back-end system faster than expected
  • Now in the process of switching to McCue Systems from old front and back-end
• Even for a relatively low-volume shop, our volume has been lower than expected during the first few months of the last 2 years, making us play catch-up at the end of the year
• Building loan loss reserve while growing quickly is difficult!
What have we done right?

• I have recruited people who have very high integrity, are very experienced, and hard working
• Most of our staff has invested in the company to varying degrees
• All of our staff enjoys working in a small company environment, and feeling like they are making a difference regarding the company’s performance
• We have very tight controls, especially regarding collections. We NEVER have accounts over 60 days - by that time we have collected or taken the equipment
• We invest in all of the cutting-edge credit information tools, and run multiple reports on each lessee/guarantor
• Our investors understand that building a balance sheet takes 10 - 15 years, not three
• When we began the business, we engaged advisors/brokers like Diversity Capital to assist with lending relationships
Conclusions

• You do not start a company for instant riches
• It is not glamorous, and requires great attention to detail and flow of operations/systems
• You can take a great amount of pride in what you do, and create a culture
• Make sure you have really thought through all of the issues!