Office Copier and Furniture Leasing, 2005
U.S. Market Dynamics and Outlook
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U.S. Market Dynamics and Outlook

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INTRODUCTION

Objectives

- This market research for the ELA has been guided by the following objectives:

  1) Measure and characterize the U.S. office copier and furniture lease financing markets.

  2) Identify trends impacting lease financing penetration in each market.

  3) Evaluate the lease financing practices and needs of equipment vendors (manufacturers and dealers).

  4) Assess the lease financing competitive environment.

  5) Project the U.S. office copier and furniture leasing markets through 2006 and identify the requirements for leasing company success.

Methodology

- In conducting this research, the following work steps were taken:

  1) In-depth telephone interviews with office copier and office furniture market participants.

  2) Extensive analysis of secondary data from the Equipment Leasing Association, other trade associations, publications, government agencies and other sources.

  3) Analysis of R.S. Carmichael & Co. research in relevant office products markets.

This study of office copier and office furniture leasing has been conducted by R.S. Carmichael & Co., White Plains, New York, in cooperation with the Equipment Leasing Association.
EXECUTIVE SUMMARY

Overview

• This market research focuses on two staples of the equipment leasing industry, office copiers and office furniture. It does not include other imaging equipment categories, nor office-related computer and telecommunications equipment, which have been or will be analyzed in separate ELA/R.S. Carmichael & Co. market studies.

• Small businesses are fueling economic growth, and they will need more equipment. Office copiers and office furniture are two of the top four equipment categories for capital investment by small businesses, according to a recent survey.

Virtually all businesses need office copiers and office furniture.

Source: American Express

• The office copier industry in the U.S. is relatively mature and continues to be quite competitive despite manufacturer consolidation.

• The office copier industry has been trending away from stand-alone copiers to “multifunction” equipment that handles one or more imaging functions (scanning, faxing, printing) in addition to copying.
EXECUTIVE SUMMARY (Cont.)

• The office copier industry continues to undergo significant changes as copiers become increasingly digital and networked with office computer systems.
  
  – Digital copier shipments have grown as shipments of analog copiers have become almost nonexistent.

• Most office copier manufacturers distribute their equipment primarily through independent dealers, with some exceptions (e.g., Xerox historically distributed only through its branches).

• An estimated 20% of the typical copier manufacturer’s annual sales are direct to major accounts, including government entities.

• Major dealer networks such as IKON Office Solutions and Danka Business Systems had made numerous independent copier dealer acquisitions in the past and still have a significant influence over copier distribution (and leasing) today.

• As their copier-related margins have shrunk, many independent copier dealers have diversified into networking, training, facilities management and other “value-added” service areas.

Lease Financing

• Office copiers have consistently represented one of the largest small-ticket leasing markets.

Technology-based equipment such as office copiers have been the lifeblood of small-ticket leasing.

Office Machines* 19%

*Includes not only copiers but also postage meters and other office products
Base: $24 billion in small-ticket leasing volume, FY 2004
Source: Equipment Leasing Association
• The relatively short life-cycle of office copiers and their rapid sales turnover have led to significant lease financing volume for small-ticket lessors over the years.

• Lessors have recognized a need to originate transactions through office copier vendors.
  
  – Vendor referrals can provide a highly efficient and cost-effective flow of copier leasing business.
  
  – Vendors in return expect fast turnaround on credit approvals, high credit acceptance, and in some cases points from their lease financing providers.

• According to the Equipment Leasing Association’s Survey of Industry Activity, office copier leasing represents a $6 billion annual market in the U.S.

Source: Equipment Leasing Association and RSC&Co. estimates

• The majority (75%) of office copier lease financing transactions fall in the small-ticket ($25,000 to $250,000) leasing category.
• Overall, the lease financing penetration rate for office copiers is estimated to be upwards of 80%.
  – This penetration includes rentals which may account for 20% to 25% of copier dealer sales that are financed in some fashion.

• The largest proportion of copier leases are residuals-based with fair market value purchase options. The FMV share can range from 75% to 95% depending on the manufacturer and its copier product line.

• Customers increasingly request technology upgrade/substitution clauses in their copier leasing and rental agreements.
  – With upgrade programs, the terms of the lease remain the same, the customer gets the newest equipment release, and payments are adjusted to account for the price differential.

• Copier lease financing maturities often fall in the 48 to 72 month range.

• While copier sales to government entities may represent 10% to 15% of manufacturer sales, only a small proportion (e.g., 20%) of these sales now appear to be leased.
  – These leases may be more of a rental structure and can be terminated at will by the government entity through non-appropriations clauses.

• Cost-per-copy programs have had a significant influence on office copier lease financing.
  – These programs allow dealers to better control customers and forestall preemptive buyouts by competitors.
• In addition to leasing, dealers often use inventory and accounts receivable financing services.
  - Inventory “floorplanning” is usually a scheduled pay format (i.e., 1/3, 1/3, 1/3 payments vs. the traditional “pay as sold”).

Leasing Competitors

• The competitive structure in office copier leasing consists of several major players, a few captives, and a number of smaller players. There are also a few new entrants in copier leasing.

• Competitive polarization has occurred in the office copier leasing field. The largest competitors have been able to make continuing investments in automation to process lease transactions, while the smaller competitors may focus on personalized service aimed at the independent copier dealers.

• GE Commercial Finance and De Lage Landen Financial Services have been the leasing powerhouses in the copier field.
  - GE Commercial Finance is estimated to have the leading market share in office copier leasing as the result of key acquisitions in recent years (e.g., Heller Financial). GE enjoys national account relationships with major manufacturers (e.g., Xerox) and is considered to have state-of-the-art lease processing capabilities.
  - De Lage Landen Financial Services is another top-tier office copier lessor that also benefits from strong national account relationships with copier manufacturers. De Lage Landen is known for its field sales organization that provides high levels of service to independent copier dealers.
EXECUTIVE SUMMARY (Cont.)

Other significant office copier leasing competitors include Bank of America Leasing, CIT, CitiCapital, Key Equipment Finance, US Bancorp Equipment Finance, and Wells Fargo Financial Leasing.

<table>
<thead>
<tr>
<th>Bank of America Leasing</th>
<th>• Emerged as a competitor in the office copier leasing field by virtue of its merger with Fleet Capital Leasing. Fleet had a strong copier leasing platform.</th>
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<tbody>
<tr>
<td>CIT</td>
<td>• Significant competitor that is also considered a leader in state-of-the-art lease processing.</td>
</tr>
<tr>
<td>CitiCapital</td>
<td>• Established a significant market presence through its acquisition of Copelco.</td>
</tr>
<tr>
<td>Key Equipment Finance</td>
<td>• Recently acquired American Express Business Finance, a notable small-ticket lessor.</td>
</tr>
<tr>
<td>US Bancorp Equipment Finance</td>
<td>• Has a significant position in the copier leasing field through Manifest, BCL and other platforms it has gained through acquisitions and mergers.</td>
</tr>
<tr>
<td>Wells Fargo Financial Leasing</td>
<td>• Has become more visible through acquisitions (e.g., Conseco Finance) and internal growth.</td>
</tr>
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GreatAmerica Leasing and Marlin Leasing are sizable independent lessors in the office copier space.

- Leaf Financial is another independent player evidently now doing business in the copier leasing marketplace.

- Smaller independents include Dolphin Capital and Studebaker-Worthington Leasing. Greater Bay Capital is another smaller leasing player visible in the office products space.

- Newer independents include Partners Equity Capital and US Express Leasing.

In addition to manufacturer captives such as Canon Financial Services, dealer networks such as IKON Office Solutions have had captive finance companies or third-party private-label leasing programs.
EXECUTIVE SUMMARY (Cont.)

Office Furniture

- Office furniture includes workstations, desks, partitions, storage systems and seating.

- Manufacturer distribution is still primarily through dealers, though major retailers such as Staples have become more significant channels.

- A handful of large U.S. manufacturers (e.g., Steelcase, Haworth, HON) represent the majority of industry shipments.

- The office furniture market has been relatively stable since the dot.com bust earlier this decade.

- Residuals-based lease financing is widely utilized. By some estimates, 50% of all leases in the office furniture market have a fair market value (FMV) purchase option.

- Dealer-sourced lease financing for customers remains important.

- Most lease financing transactions appear to fall in the $100,000 to $500,000 range.

- The competitive structure in office furniture leasing includes the leaders in office copier leasing.
  - *GE Commercial Finance* has been active in the office furniture leasing field for a number of years. It enjoys national-account customer leasing relationships with some of the leading manufacturers.
  - *De Lage Landen Financial Services* has been another prominent provider of lease financing in the office furniture field and also has managed private-label leasing programs for major manufacturers.

- *US Express Leasing* and *Leaf Financial* are examples of newer players in office furniture leasing.

Lease financing is a well-established office furniture sales-aid.
EXECUTIVE SUMMARY (Cont.)

• Steelcase Financial Services is a unit of industry-leader Steelcase Inc. that evidently funds all of its lease financing business through a third-party.
  – Other major manufacturers appear to have private-labeled leasing programs (e.g., Haworth Capital) that are administered by third-parties.

Opportunity Considerations

• Technology convergence, digital copiers, greater connectivity, color copiers, lower price points, and vendor consolidation will all have a bearing on the growth outlook for the office copier leasing market.
  – Manufacturers will continue to promote digital equipment that is connected to networks.

• Back-room automation and new origination technologies will be critical to the future success of office copier leasing companies.

• Since copier leasing is a mature field, growth for individual lessors will have to be realized through market share gains.
  – Gaining market share will require state-of-the-art technology to drive down operating costs and provide competitive pricing.
  – High volume will be required to justify infrastructure and system investments.
  – “Take away” business will be challenging because many vendor programs have embedded customer bases with the incumbent lessors. This business may not migrate easily because of the prevalence of FMV leasing and upgrade/refresh programs.

The copier leasing market will continue to recover in the foreseeable future.
EXECUTIVE SUMMARY (Cont.)

- Office copier lessors must continue to refine and diversify their product offerings.
  - Government leasing, for example, appears to be an under-served need in the office copier market. This includes both federal and municipal leasing programs for vendors.

- Cost-per-copy programs will continue to evolve. These programs will require additional investments in lease processing technology related to specialized billing and accounting.

- Vendors will continue to be the focal point of office copier lease origination.
  - Alternative channels (e.g., customer-direct) for originating copier leases are considered too costly.

- Overall, office copier lessors must be mindful of the following success factors:

<table>
<thead>
<tr>
<th>Success Factor</th>
<th>Description</th>
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<tr>
<td>Automation</td>
<td>Effective use of technology for lease application processing, credit scoring, documentation, etc. will be an overriding success factor in office copier leasing.</td>
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<tr>
<td>Credit Turnaround</td>
<td>Almost immediate credit approval will continue to be expected by copier vendors and their customers.</td>
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<tr>
<td>Field Support</td>
<td>Office copier lessors will derive some competitive advantage through regional presence that fosters personal relationships with vendors.</td>
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<tr>
<td>Product Line</td>
<td>Multiple lease financing products that meet differing and specialized customer needs will be important.</td>
</tr>
<tr>
<td>Quality of People</td>
<td>Even though personal relationships among lessors, vendors and end-customers have been affected by automation, vendors and customers will still require some interaction with competent leasing company representatives.</td>
</tr>
<tr>
<td>Service Quality</td>
<td>Customer billing accuracy and collection protocols, for example, will be extremely important.</td>
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<tr>
<td>Vendor Relationships</td>
<td>Because office copier dealers are present at the time and point of purchase, they will continue to have a major influence on end-customer selection of leasing providers.</td>
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Office copier lessors will need to further differentiate themselves through distinctive product offerings and marketing strategies, as well as through delivering superior service quality to both the copier vendor and end-customer.
EXECUTIVE SUMMARY (Cont.)

- Other success factors in office copier leasing will include:
  - A credit approval rate for vendors in the vicinity of 75% to 85% (e.g., for companies in business more than two years).
  - Lessor structuring flexibility to meet a wide range of customer needs.

- In the office furniture leasing market, a number of the above requirements for success will also apply. In addition, office furniture industry expertise will continue to be highly valued by manufacturers and dealers alike.
  - Lessors will need to be flexible in meeting some unique industry requirements, such as the phased financing of projects as office furniture is delivered.

Lessors’ web capabilities must cover the entire lease processing cycle from application to documentation.
OFFICE COPIERS
MARKET OVERVIEW

• Business investment in copier equipment, after falling off sharply several years ago, has recovered to the $7 to $8 billion level.

  The office copier industry in the U.S. is very mature.

[Bar chart showing $ billions for years 2000 to 2006(E), with values: 9.6, 6.7, 7.0, 7.3, 7.5, 7.9, 8.3]

Source: U.S. Department of Commerce and RSC&Co. estimates

• The office copier industry has been trending away from stand-alone copiers to “multifunction” equipment.
  - Multifunction equipment handles one or more imaging functions (scanning, faxing, printing) in addition to copying.
  - The quality and reliability of each function on multifunction equipment has reached par in some cases with single-function equipment.

• The office copier industry also continues to undergo significant change as copiers become increasingly digital and networked with office IT systems.
  - Digital copiers are mainly for copying and printing, but can include scanning and faxing as options.
MARKET OVERVIEW (Cont.)

- Digital copier shipments continue to grow as shipments of analog copiers fade away.

![Unit Millions](chart)

Source: Lyra Research

- The leading copier manufacturers have been actively promoting digital copier technology and IT system connectivity.

- Color copiers have become more economically attractive to businesses.
  - Color copiers are closing the gap in meeting the speed and quality standards of black-and-white copiers.

- Copier manufacturers have been consolidating (e.g., Konica Minolta, Ricoh/Lanier), but no one manufacturer enjoys dominant market share.

- Office copiers still represent a highly competitive industry, with most manufacturers offering similar features.

Speed, copy quality and cost are the major factors that customers weigh in their selection of copiers.
• The leading office copier manufacturers include:

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<th>Manufacturer</th>
<th>Description</th>
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<td>Canon</td>
<td>Total Canon U.S.A. sales approaching $10 billion</td>
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<tr>
<td>Konica Minolta</td>
<td>Created from 2003 merger of Konica and Minolta</td>
</tr>
<tr>
<td>Kyocera Mita</td>
<td>Also prominent in fax, printer and MFP markets</td>
</tr>
<tr>
<td>Lanier</td>
<td>Acquired in 2001 by Ricoh; now a subsidiary</td>
</tr>
<tr>
<td>Panasonic</td>
<td>Full office products line including fax and printers</td>
</tr>
<tr>
<td>Ricoh</td>
<td>Subsidiaries include Lanier and Savin</td>
</tr>
<tr>
<td>Savin</td>
<td>Acquired by Ricoh in 1995</td>
</tr>
<tr>
<td>Sharp</td>
<td>One of top 5 copier manufacturers</td>
</tr>
<tr>
<td>Toshiba</td>
<td>Manufacturer of copiers and other office equipment</td>
</tr>
<tr>
<td>Xerox</td>
<td>Still prominent in color/B&amp;W copiers despite problems</td>
</tr>
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An estimated 75% to 80% of the typical copier manufacturer's annual sales are through independent dealers.

• Of those manufacturers that sell through dealers, Canon, Ricoh, Sharp, Kyocera Mita, and Konica Minolta appear to have the largest market shares, followed by Panasonic and Toshiba.

  - Xerox historically has not sold copiers through dealers.
The office copier lease financing market recently has been in the $6 billion per annum range and could grow to $7 billion in the U.S. by 2006.

Office copier leasing transactions are largely “small-ticket” (i.e., $25,000 to $250,000).

- On a per-unit basis, the average ticket size often falls below $25,000.

Historically, copiers represented the majority of office equipment leasing.
• The proportion of copier business that is cash or leased sales is driven to some extent by manufacturer goals and incentives.
  - If the focus is on leasing or rentals, then the appropriate incentives are incorporated into dealer plans to increase the volume of leased sales.

• There are three basic office copier lease financing plans: fair market value (FMV), dollar buyout, and rental plans with cancelability.
  - The FMV option involves some risk versus the dollar buyout.

• The largest proportion of copier leases appear to be residuals-based with fair market value (FMV) purchase options. The FMV share can range from 75% to 95% depending on the manufacturer and its copier product line. This penetration seems consistent with historical Equipment Leasing Association data for office copier leasing.

*Other Purchase Option Leases*

- S1 Purchase Option Leases: 20%
- Other Purchase Option Leases: 5%
- FMV Purchase Option Leases: 75%

*Base: $2.4 billion*
*Source: Equipment Leasing Association*

**Fair market value (FMV) purchase option leases predominate in the office copier field.**
• Lease financing includes rentals which may account for 20% to 25% of copier dealer sales that are financed in some fashion.
  – Cancelable rentals are a copier industry practice originally attributable to Xerox. These rentals include service, and the amount is based on customer usage as measured by meter readings.
  – Rental terms can range up to several years and often are true rentals; that is, the copier remains the vendors’ asset during the rental agreement.

• Customers appear to increasingly request technology upgrade/substitution clauses in their copier leasing and rental agreements. (This practice also has been prevalent in the IT equipment leasing field.)
  – With upgrade programs, the terms of the lease remain the same, the customer obtains the newest equipment release, and payments are adjusted to account for the price differential.
  – Leasing can make it easier and less costly for customers to upgrade.

• Copier lease financing maturities can fall in the 48 to 72 month range.

• Sales to government entities may represent 10% to 15% of a typical manufacturers’ volume. Of this, only a small proportion is now leased, perhaps 20%.
  – These leases may be more of a rental structure and can be terminated at will by the government agency.

Overall, the lease financing penetration rate for office copiers is estimated to be in the 80% range.
• Cost-per-copy programs have had a significant influence on office copier lease financing.
  - The cost-per-copy arrangement is structured so that the customer only pays for the copies used, plus the cost of the equipment and service.
  - The customer, in conjunction with the manufacturer or its dealer, estimates the number of copies that it will make within a certain period. It then makes a monthly payment to the vendor based on this estimate. There is also a charge for copies over the estimated amount.
  - The methodology to calculate the cost, based on a 60-month fair market value lease, might be as follows:
    • Monthly copy volume x copy rate = monthly service amount
    • Monthly service amount x term = total service contract
    • Equipment cost + total service contract = total lease amount
    • Total lease amount x rate factor = monthly minimum payment
    • Monthly minimum payment + monthly copy volume = cost per copy

• Economies of scale are important in office copier leasing. This is suggested by the fact that nearly 90% of volume is now enjoyed by ten leasing companies having total annual volumes exceeding $1 billion.

Cost-per-copy programs have been important to office copier dealers in terms of profitability and retaining customer relationships.

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Base: $6.1 billion in office machine new business volume, FY 2004
Source: Equipment Leasing Association
Copier dealers select their leasing partners based on competitive rates (not necessarily the lowest), as well as fast turnaround on credit approvals (e.g., a few minutes to a few hours depending on transaction size) and funding (e.g., within 24 hours).

Leasing company relationships with copier manufacturers are also important.

- Leasing company relationships with copier manufacturers provide access to their independent dealer base.

Sales support and sales force training are weighed in leasing company selection.

Billing by leasing companies is expected to be accurate.

Leasing companies are also expected to take the “velvet glove” approach in collecting from dealer customers.

Leasing company reports to office copier dealers are expected on a regular basis and need to be provided in an easy-to-read format.

Copier dealer diversification has led to a greater need for creative financing structures from their leasing providers.
• Lease transactions decided automatically by credit scorecards are now prevalent. This is illustrated by Equipment Leasing Association small-ticket leasing data indicating that more than 60% of credit decisions are automatically credit scored (with or without manual intervention).

```
Non-Automated Decisioning 39%
Automated Decisioning without Manual Intervention 25%
Automated Decisioning with Manual Intervention 36%
```

Base: $23.9 billion small-ticket leasing volume, FY 2004
Source: Equipment Leasing Association

• Turnaround time for credit approval needs to be very fast, often a matter of minutes for many transactions. Larger transactions (e.g., >$100,000) are expected to be approved the same business day.

• According to ELA data, the median credit decision turnaround for all small-ticket leasing transactions can range from less than 1 hour to 7 hours depending on transaction size.
From the copier vendors’ standpoint, a credit approval rate in the vicinity of 75% to 85% is expected (e.g., for customers in business more than two years).

Lessor flexibility is also important, including different lease financing products to meet a wide range of customer needs, as well as creativity within the lease structures.

Regional field support by leasing companies is needed to foster relationship-building with vendors.

In addition to leasing, office copier dealers use inventory and accounts receivable financing services.

- Inventory “floorplanning” is usually a scheduled pay format (i.e., 1/3, 1/3, 1/3 payments vs. the traditional “pay as sold”).
• Office copier vendors are motivated to use the Internet for their leasing needs because it gives them a quicker response and makes it easier for them to manage applications.
  – By some estimates, 20% of leasing applications are now entered on-line by dealers.

• As customers move toward a more networked environment with copiers, leasing companies will be called upon for new and creative financing structures.
  – This trend will drive a need for more soft costs to be financed.
  – Customers also will be seeking more flexibility for upgrades (and downgrades).

• Vendors will continue to seek web-based application processing, electronic notification of approvals/declines, billing, and sales and management reporting.

Some office copier leasing companies are further ahead than others in terms of technological sophistication.
VENDOR PRACTICES

- Office copier manufacturers still distribute their equipment primarily through independent dealer channels.
  - The principal exception over the years was Xerox, which distributed its copiers only through branches.

- The typical copier manufacturer’s distribution system may be broken down as follows: 75% through independent dealers nationwide, 20% through direct channels or branch offices (generally serving larger customers), and perhaps 5% through distributors that sell to alternate channels such as catalogue sales.

  ![Distribution System Pie Chart]

  *Source: RSC&Co. interviews*

  *For office copier manufacturers at lower price-points, upwards of 85% of equipment sales may be through independent dealers.*

- IKON Office Solutions and Danka Business Systems still have a significant influence over copier distribution.
  - Both made numerous independent copier dealer acquisitions in the past.
  - Danka’s annual revenues exceed $1 billion. It primarily sells and leases Canon, Konica and Toshiba equipment.
- IKON’s annual revenues are approaching $5 billion. It sells and leases Canon, Ricoh and other copier lines. (IKON sold its captive finance company to GE Commercial Finance last year.)

- As their copier margins have shrunk, many independent dealers have diversified into networking, training, facilities management and other “value-added” services.

- Well-established independent copier dealers may have from 25 to 100+ full-time employees.

- At the office copier manufacturer level, various leasing practices are found. For example:

  - **Konica Minolta Business Solutions** is an international manufacturer of copiers and other imaging equipment. Competitors include Xerox, Canon, Sharp, Kyocera Mita, and Lanier. Ticket prices range from $2,500 to >$50,000. Sales are both direct and through independent dealers that typically sell lower-priced copiers. **Minolta** was historically a camera company that evolved into office copiers and other imaging equipment. Its copier distribution was through dealers nationwide. The majority of leased sales had fair market value (FMV) purchase options vs. 10% purchase options and dollar buyouts. Konica Minolta has used third-parties to run its customer leasing programs.

  - **Kyocera Mita** sells copiers through an extensive dealer network and a national-accounts department that targets corporations interested in acquiring hundreds or thousands of copiers at a time. Many dealers appear to sell only this equipment since it is an extensive product line. Government sales may make up a significant percentage of total sales.

  - **Ricoh** distributes through two channels – independent dealers and major accounts. Average ticket size for copiers may exceed $30,000. Fair market value (FMV) leases seem to represent the majority of Ricoh leasing. The other lease financing product used is a dollar buyout lease where the equipment has little residual value. Ricoh has dealt with multiple third-party leasing sources over the years.

  Independent copier dealers have endured because of their local presence and evolution into value-added services.
VENDOR PRACTICES (Cont.)

- *Sharp* also has established leasing relationships with third-parties over the years. Sharp Financial Services is the current private label. Sharp had a captive in the past, Sharp Electronics Credit Company, but outsourced the operating aspects. Sharp offers cancelable rentals. These rentals have service bundled in and are based on usage/meter readings. Of total sales, most are lease financed in some way. Much of the leasing features fair market value (FMV) purchase options. An estimated 10% to 15% of sales are to the government marketplace.

- *Xerox* reached an agreement in 2002 with GE Commercial Finance to borrow up to $5 billion over eight years backed by equipment leases. GE has since become the primary equipment financing provider for Xerox customers in the U.S. through advances against Xerox’s new lease originations. GE initially provided $2.5 billion in funding, which was secured by portions of Xerox’s lease receivables.

Private-label customer leasing relationships are prominent among copier manufacturers.
COMPETITIVE ENVIRONMENT

- The competitive structure in office copier leasing consists of several major third-party players, a few captives, and a number of smaller players below them.
  - There are also several new entrants in the office copier leasing field.
- GE Commercial Finance and De Lage Landen Financial Services have been the major lease financing providers to the copier industry. Both have a strong position in the market and are noted for their extensive industry knowledge and broad range of products and end-customer industries that they will finance.
- Independent financial service companies such as GE account for a major share of the office copier leasing market, as suggested by most recent ELA data.

\[\text{Base: } 56.1 \text{ billion in new business volume, FY 2004}\]
\[\text{Source: Equipment Leasing Association}\]

- \textit{GE Commercial Finance} is estimated to have the leading market share in office copier leasing, partly as the result of key acquisitions (e.g., Heller Financial, Mellon Leasing). GE enjoys national account relationships with major manufacturers (e.g., Xerox) and is considered state-of-the-art in terms of lease processing capabilities. It was an early innovator in cost-per-copy programs. According to one manufacturer:
  
  \textit{“GE is number one in the office equipment industry. They are highly concentrated in the area and are very distinguished. GE is most advanced technologically.”}\]
De Lage Landen is another top-tier office copier lessor that also benefits from strong national account relationships with copier manufacturers. De Lage Landen is noted for a field sales organization that provides high levels of service to independent copier dealers. Effective administration of private-label leasing programs is considered another attribute of De Lage Landen. According to one manufacturer:

“DLL has historically delivered on services promised, has an excellent back office and billing system, excellent field support, extensive MIS capabilities, pays promptly and works well with the major accounts when negotiating terms and conditions of the lease agreement.”

CIT has emerged as a significant competitor in office copier leasing, building on the Newcourt platform that it acquired. It is also considered a leader in state-of-the-art processing of copier lease transactions. According to one manufacturer:

“While the Newcourt transition could have been more seamless, CIT has become a leader. Their sales people provide strong input, and they have a great back office.”

CitiCapital established a significant market presence in the office copier leasing field through its acquisition of Copelco, a pioneer in cost-per-copy financing.

GreatAmerica Leasing and Marlin Leasing are notable mid-sized independent lessors in the office copier leasing market.

- GreatAmerica Leasing was initially active only in the office copier segment but has since evolved into other asset/industry categories. The total portfolio is now approaching $500 million, and annual lease volume exceeds $200 million. GreatAmerica sources business from copier dealers. Most leases written appear to have FMV purchase options, with the balance divided between dollar buyout and 10% purchase options. GreatAmerica also has a tax-exempt leasing capability.
COMPETITIVE ENVIRONMENT (Cont.)

- Marlin Leasing has grown quickly as a competitive factor in the small-ticket office products field.

- Bank of America Leasing emerged as a competitor in the office copier leasing field by virtue of its merger with Fleet Capital Leasing. Fleet had a strong copier leasing platform.

- Key Equipment Finance recently acquired American Express Business Finance, another small-ticket lessor.

- US Bancorp Equipment Finance has a significant position in the copier leasing field through Manifest, BCL and other platforms it has gained through acquisitions and mergers.

- Wells Fargo Financial Leasing has become a larger competitor through acquisitions (e.g., Conseco Finance) and internal growth.

- Smaller independents include Dolphin Capital, Studebaker-Worthington Leasing and Greater Bay Capital. Newer competitors include Partners Equity Capital and US Express Leasing. Leaf Financial is another player that appears to now be doing business in the copier leasing marketplace.

Captive Finance Companies

- Canon Financial Services is the wholly owned subsidiary of Canon USA and provides lease financing services to customers of Canon dealers. Assets exceed $1 billion. Copiers and other imaging equipment represent the bulk of its business. Most lease financings appear to be <$50,000. FMV leases may account for most volume, followed by dollar buyouts. Lease penetration at the dealer level is estimated to be high for direct dealers (that sell to larger-ticket accounts), as well as for independent dealers.

Third-parties are sometimes used by captives if the captive is unwilling to accept a credit or if a package of equipment includes products from another manufacturer.
• *Lanier*, a wholly owned subsidiary of Ricoh Corporation, had an in-house customer finance operation for a number of years. The benefits of this internal financing seemed to include: (1) value-added for the customer where the customer prefers to finance with the same manufacturer; and (2) profitability from leasing.

• Dealer networks such as IKON Office Solutions also have had captive finance companies.

  - *IKON Financial Services* was the captive of IKON Office Solutions before being sold to GE Commercial Finance in 2004. It writes leases primarily on copiers and other imaging equipment manufactured by Canon, Ricoh and Sharp. Assets exceed $3 billion. Nearly 80% of equipment sold by IKON was reportedly financed through IKON Financial Services. It would also finance non-IKON products such as office furniture.

  - *Danka Business Systems’* former captive was American Business Credit. This unit was apparently acquired by GE Commercial Finance several years ago. The captive existed as a sales support business for Danka rather than as a revenue generator. Equipment financed included copiers, other imaging equipment, and IT and mailing systems. Customer financing products offered included residuals-based (FMV) and money-over finance leases. It is estimated that over 50% of Danka copier sales are financed. Target leasing volume has been in the $150 million per annum range according to published data.
OFFICE FURNITURE
MARKET OVERVIEW

- Office furniture includes workstations, desks, partitions, storage and seating.
- Manufacturer distribution is still primarily through independent dealers.
- Large retail sellers such as Staples and Office Max are influencing the office furniture distribution channel.
- A handful of large U.S. manufacturers (e.g., Haworth, Herman Miller, Steelcase) represent the majority of office furniture industry shipments.
- Customers increasingly select office furniture through electronic catalogues.
- The office furniture market has stabilized around the $10 billion level after a sharp decrease from the dot.com era.

The office furniture market has been stable in recent years.

$ Billions

Source: Business and Institutional Furniture Manufacturers Association
• Seating and systems represent the major office furniture product categories.

Base: $10.6 billion consumption, 2004
Source: Business and Institutional Furniture Manufacturers Association
LEASE FINANCING DYNAMICS

• Lease financing is a well-established tool for selling office furniture.

• Residuals-based lease financing appears to be widely utilized.
  
  – By some estimates, at least 50% of all leases in the office furniture market have a fair market value (FMV) purchase option.

• Most lease financing transactions appear to fall in the $100,000 to $500,000 range.

• For dealers, leased sales may be larger (e.g., 10%-15%) than cash sales, and leased deals may be more profitable.

• Customers often look at office furniture as an expense and are receptive to lease financing instead of outright purchase.

• Leasing can produce deeper relationships with customers and repeat business.

• Leasing is most often sourced at the dealer level and is actively used by dealers as a sales tool.

• Dealers may work with a variety of lease financing companies, frequently independent of manufacturer programs or captives.

Lease financing has become a more important part of the office furniture business.
While the Equipment Leasing Association does not break out “office furniture” as a separate equipment category, the leasing trend in overall “furniture, fixtures” appears representative.

There are a number of factors weighed in selecting leasing providers, including industry knowledge and the technology to take applications off the web and respond with credit decisions within minutes.

- Even as lease processing technology evolves, selection of lease financing partners is still relationship-driven in the office furniture market.

Leasing company regional field support for office furniture dealers is important to the success of manufacturer-sponsored programs.

Office furniture industry expertise is valued in choosing lease financing providers.

Source: Equipment Leasing Association and RSC&Co. estimates

Dealer-sourced lease financing for customers remains significant.
• Customers sometimes prefer to rent their office furniture. Specialized providers such as Cort Furniture now address this need.

• Some office furniture vendors believe that eventually there could be a business model whereby office furniture is used and then returned for new replacements.
  - It would be a pay-for-use financing model, rather than a traditional lease structure.

• Floorplanning is another financial service utilized by the office furniture industry.
  - Dealers for Herman Miller and other contract manufacturers do not have a significant need for floorplanning/inventory finance because their furniture sales are made to order.
VENDOR PRACTICES

- **Haworth** is one of the top three office furniture manufacturers (along with Steelcase and HON). It has had formal relationships with third-party lease financing providers. Leases are generally 3-5 years. The ticket size for leased equipment often exceeds $100,000. Financing is mainly at the dealer level, including lease financing programs under the Haworth Capital label.

- **Herman Miller** is another major manufacturer of office equipment, including tables, desks, seating and panels. Sales are both direct and through dealers. Most of the leases appear to be FMV buyouts. The average ticket size may exceed $200,000. Herman Miller offers customer leasing options to dealers because they are proven ways to promote sales and support the dealers. Dealers, however, may be able to use other leasing sources as well.

- **HON Industries** may be the second largest U.S. office furniture manufacturer. It offers a complete line of both wood and steel furniture, including chairs, tables, files, panel systems and desks. Since office furniture is often produced to order, the dealer may typically have a showroom to show clients the product. The most common lease may be a dollar buyout. HON will also provide FMV leases.

- **Knoll** is a private contract manufacturer of office furniture and accessories, with ticket sizes ranging up to several million dollars for a system. Distribution seems to be mainly through dealers/distributors, with two methods of sales: (1) dealers either buy the furniture outright and resell to customers, or (2) for very large orders, dealers handle the sale, and Knoll ships and bills direct to the end-customer. The length of the leases usually ranges from 2-5 years.

- **Steelcase** is widely considered the leading office furniture company. Until relatively recently, it appeared to be the only manufacturer in the industry with a captive. Steelcase will reportedly wrap design/installation/architectural services/maintenance into its leases. Average ticket size may exceed $100,000. The majority of sales may be financed in some way (either leasing or money-over financing). Steelcase Financial Services appears to have its own sales reps to facilitate the leasing process, but relies on a third-party for funding support.

Manufacturers strive to be competitive with their third-party lease financing programs.
COMPETITIVE ENVIRONMENT

- Office furniture lessors with annual lease volume greater than $1 billion appear to represent almost 90% of office furniture leasing.

- Independent lessors seem to enjoy the largest office furniture leasing market share.

- De Lage Landen Financial Services has been a prominent provider of lease financing in the office furniture field and has successfully managed major private-label leasing programs for manufacturers.

De Lage Landen and GE also enjoy significant competitive positions in the office furniture leasing market.
COMPETITIVE ENVIRONMENT (Cont.)

• *GE Commercial Finance* has been active in the office furniture leasing field for a number of years. It has enjoyed national-account customer leasing relationships with some of the leading manufacturers.

• *US Express Leasing* and *Leaf Financial* appear to be newer players in the office furniture leasing market.

• *Steelcase Financial Services* had been the only captive finance company among the major manufacturers in the office furniture industry. Other major manufacturers tended to have private-label leasing programs (e.g., *Haworth Capital*) administered by third-parties.

  – Steelcase Financial Services still appears to have its own lease financing sales force, while funding is evidently handled by a third-party.