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Financing tower cranes:
A look at the current situation and the way forward.

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Dr. Peter Schiefer, CEO WOLFFKRAN



Executive summary

- **Despite solid recovery of the construction industry, banks remain hesitant in financing of construction equipment; preventing contracting and rental equipment companies from investing in new tower cranes**
 - New rules of Basel-III; long term loans require significantly more equity
 - Cash flow from rental companies
 - High gearing according to the “standard rules”
- **CECE Tower Crane Section has identified the general lack of knowledge about tower cranes as a key factor for restrictive financing policy and aims to provide financial sector with clearer understanding about this asset**
- **Challenges for crane owners**
 - Transparency for the lender; fraudulent cases
 - Tracking and identifying equipment
 - Mix of asset rights with different lenders
 - Cash flow and gearing

Availability of funding from the banks

- 1. No short fall in availability of funds, but terms (duration of the loan) will become a challenge for the lender and the borrower**
- 2. Typical debt service cover ratios (Debt/EBITDA multiple) do not suit the crane rental business**
- 3. Tail-end or balloon financing are the consequence 48-50/60-40; adding substantial risk for the lender and the borrower**

Underlying equity requirements for lenders rise significantly with Basel-III; this increases financing costs dramatically and is a very tough limiting factor

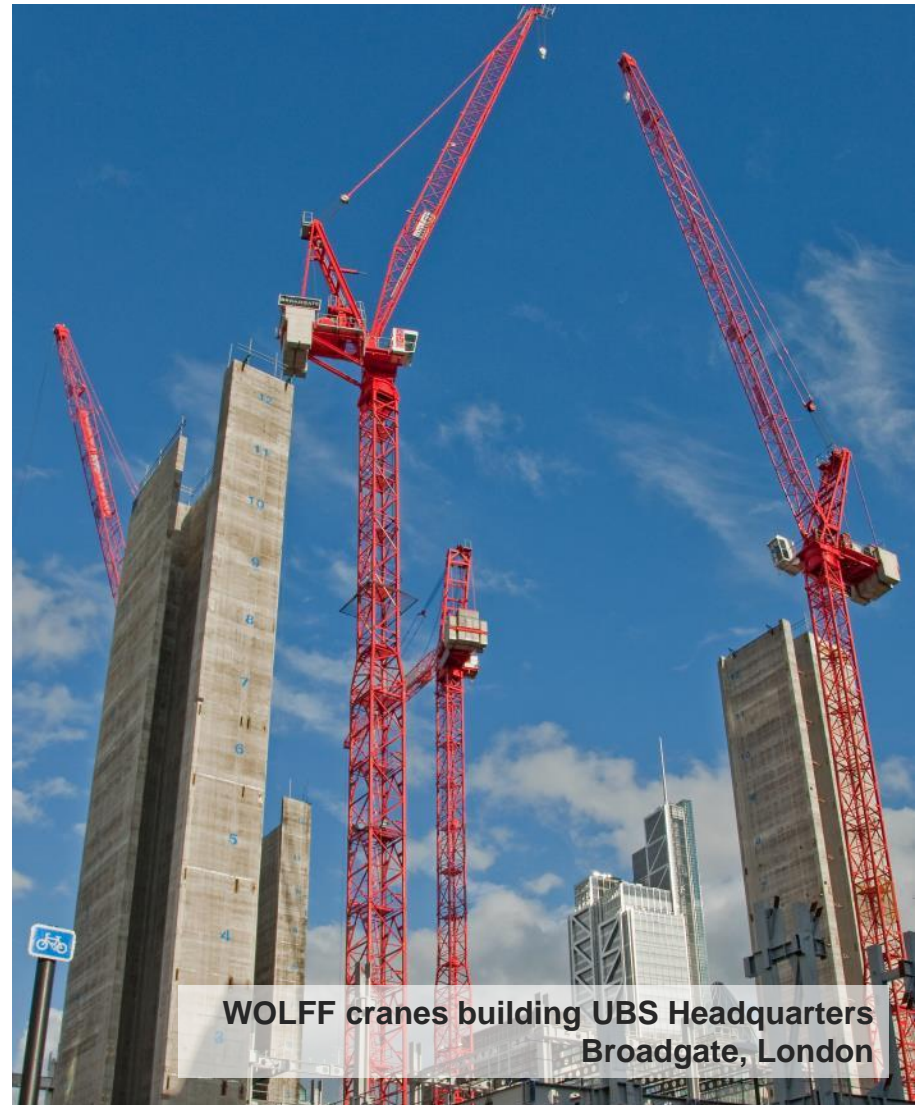
Equipment with a 20+ year lifetime cannot be financed and repaid in 3-5 years; this only works in boom markets at peak times, and only for a very limited time (e.g. Dubai)

It doesn't even work for equipment with a 5 year lifetime expectation; run the numbers!

You are betting on the same or better refinancing conditions in 4+ years

Cash flow nature of the rental business

1. The rental business model earns its money long term; 10+ years
2. The rental business has proven to provide very stable returns with a small manageable overhead structure and adjustable fix costs
3. A well balanced aging structure of the fleet is important
4. Ultimate downturn protection is the ability to move/rent/sell the equipment into other markets if a current market does not work any more
5. Cash flow sweetener at the tail end is the sale of used equipment



Understanding the asset

- 1. One of the very few products in the world that can be sold/shipped/used truly globally**
- 2. It's not A crane, but a versatile toolbox, i.e. a set of 40...100 pieces that are custom assembled for a specific job site**
- 3. High versatility allows the option of financing a single piece that can be used/rented/sold in many different sites and projects**
- 4. Identifying and tracking the assets can be matched using latest ERP systems combined with barcode, RFID or similar technologies**
- 5. The asset is rarely stolen; a tower crane is just not moved very easily**

While the versatility of the asset is its big advantage, it is at the same time also its biggest disadvantage

From a lender perspective a large batch of pieces requiring expert know-how in assembly has to be financed

From a crane owner/manufacturer perspective, the pieces can be combined in many different ways according to the users manual



The older, the better

- 1. A tower crane is one of the few products in the world that can and is used in a working environment even after 20+ years**
- 2. Proven track record of cranes older than 20+ years being fully functional and generating profit every day**
- 3. Documented and thorough maintenance history will further enhance the ability to finance**
- 4. Manufacturer can support/repair/ assess cranes out of production for 15+ years**

More reporting and details needed for the lenders

A higher residual value has a significant impact on any risk assessment by a lender

However: bear in mind that it does not resolve the immediate cash flow

Running a complete maintenance file on a crane from the point of production

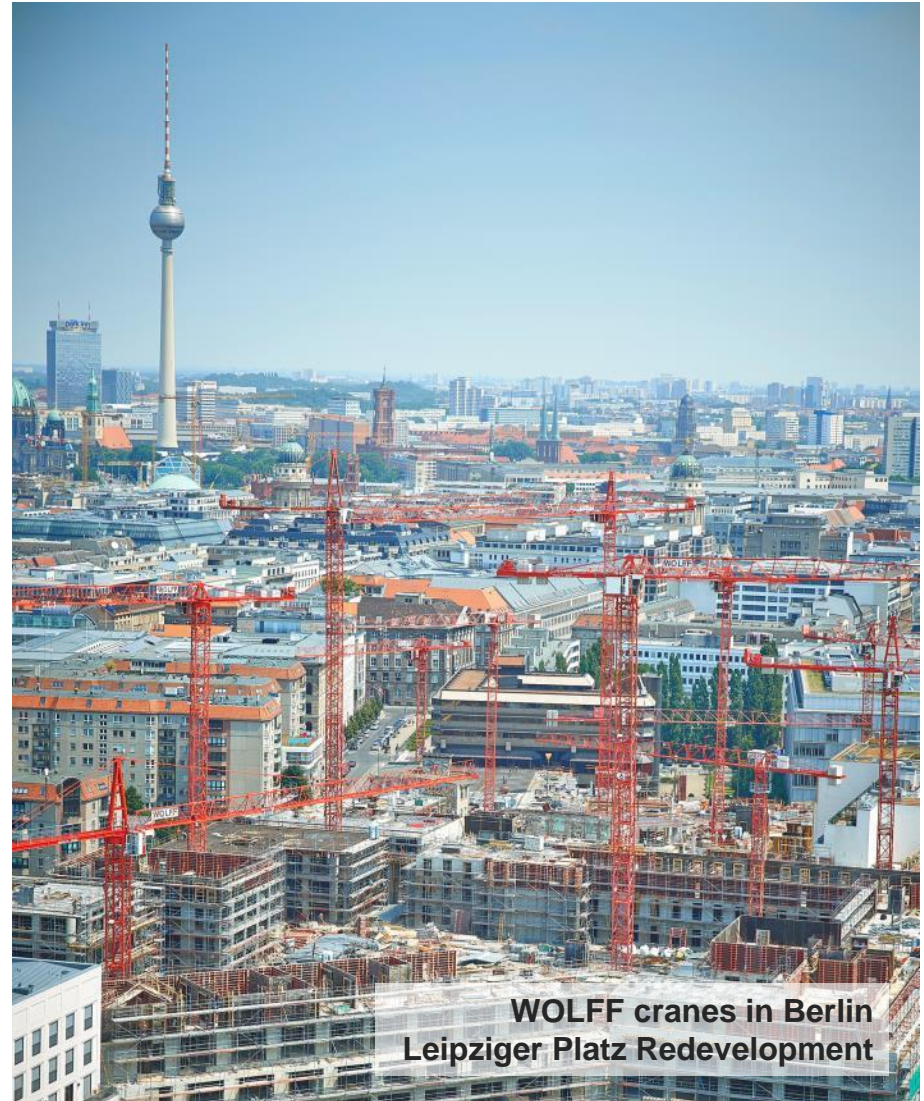
Not limited to spare parts, but also covering technical support – i.e. statistics data, refurbishment



Mix of asset rights

1. The lender usually requires the pledge of the asset rights as a security
2. Normally a complete crane (slew top and tower) has to be financed
3. Once assets from different lenders get mixed in a project, in the event of a credit default, assigning the rental fees to a specific piece and lender is an issue of the lender

The common practice of calculating the rent based on i.e. fixed percentage factor of value/purchase price/list price can overcome this issue



WOLFF cranes in Berlin
Leipziger Platz Redevelopment

Fight against lack of transparency

- 1. Missing transparency affects the entire industry; higher financing cost or even no available financing**
- 2. Every fraud makes a tower crane financing less attractive for lenders**
- 3. Encourage lenders to visit and check their asset base frequently**
- 4. Tracking and clearing every sale of a used crane, detailed by every serial number**

Cranes sold as used assets while still under finance and NOT reported for years!

No support for lender in case of default with regard to identifying, repossessing or accessing his equipment

Enable tracking of every component by its serial number, incl. each tower section and individual parts of the slewing part

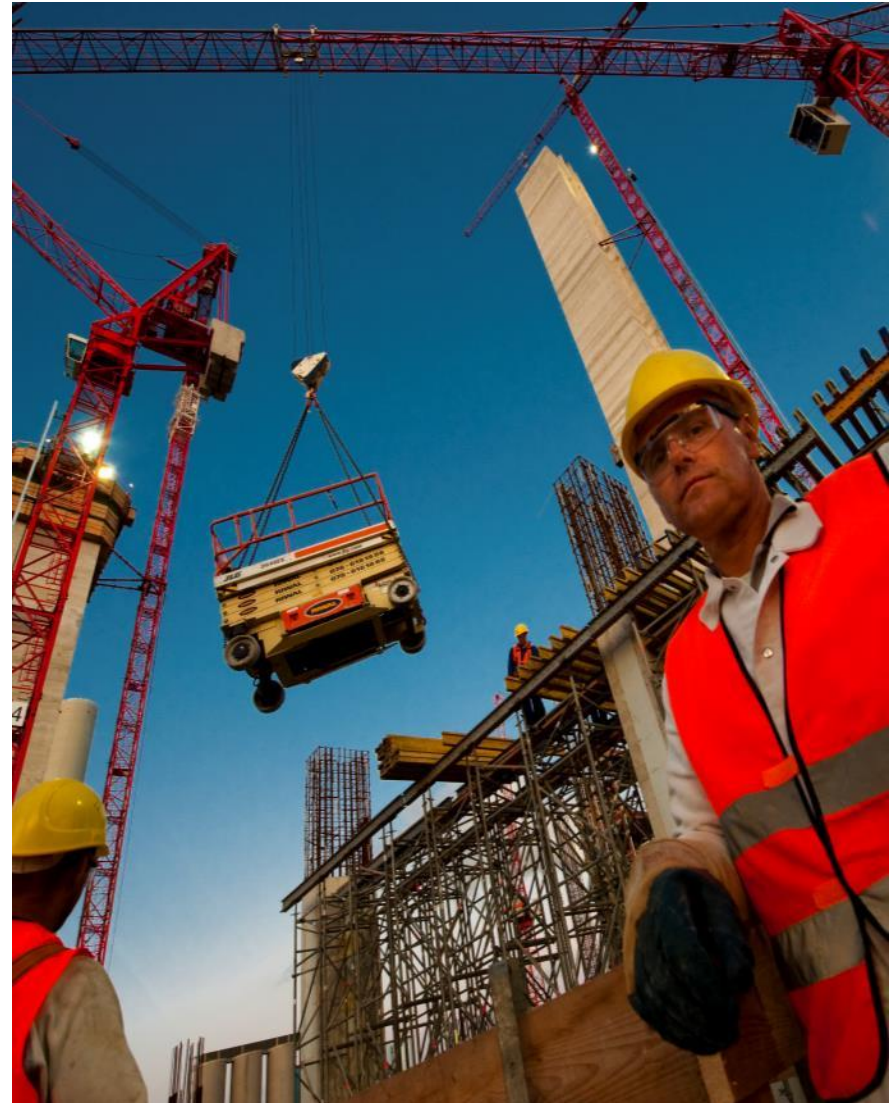
Enable tracking of every movement of a component via asset management system

Introduction of a central asset register?

The challenge remains that it is not A crane, but a set of 40...100 pieces

Urgent matters

- 1. Support lenders in understanding the asset principle; long lasting, high residual values, low risk of loss of asset, highly attractive and functional asset even piece-by-piece in a secondary market**
- 2. Manufactures have to support tracking tools and long term asset protection by means of providing spare parts and technical service**
- 3. Owners must run a fully transparent asset management**



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