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INTERVIEW **ALUN RICHARDS, HEAD OF EUROPEAN VENDOR OPERATIONS**

The key to growth

Alun Richards tells **Brendan Malkin** about Key Equipment Finance's unprecedented growth and his plans for the future

ALUN Richards retains most of his British accent (there is a slight American twang) despite being a long-term employee of US companies. It neatly fits with his position as head of the European vendor operations of Key Equipment Finance, Key's leasing arm. There he has considerable autonomy and importance in the company. It seems he can call at least some of the shots.

This is largely down to the importance of leasing at Key Corp. According to Richards, out of Key Corp's total portfolio of \$90bn, some \$12bn stems from leasing. Relative to most banks worldwide, leasing at Key represents an extremely large proportion of the overall business. Also, until 1997 Key Corp was an entirely US operation – it did not even have a Canadian business. Then it bought an IT asset company called LeaseTech and suddenly Key Corp, as well as its leasing business, was propelled onto the international stage.

Today, Richards' European business is again experiencing change. Following what – by Richards' own admission – was a difficult initial bedding-down period between 1997 and 2001 (largely because the business remained relatively unknown as it retained the LeaseTech name), Key Equipment Finance is seeing unprecedented growth. According to Richards, KEF's turnover for 2005 totalled \$430m, a 42 per cent increase on the previous year, and he expects this figure to rise to \$1bn by 2010. This follows year-on-year growth since 2001 of 20 to 25 per cent.



CV

Career: Key Equipment Finance, General Electric European Equipment Finance; has been in the leasing sector for 22 years

Education: BSc in Biochemistry, Sussex University

Leisure interests: Cars, boats – Richards is a self-confessed "petrolhead"; watersports

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have the ability to take risks like this, we have been doing it for 20 years." Second, it showed KEF is ambitious. UBS Leasing is said to be the equivalent of Lombard in the UK, therefore, by signing up to the alliance, Richards was in effect putting KEF at the heart of Swiss leasing. In this way it has echoes of BNP Paribas' recent purchase of small ticket lessor J. Van Breda & Co, a move which gave the French bank critical mass in Belgium.

Richards is now planning a similar move with other large lessors around Europe. He expects the partnerships to be with lessors of "significant size" and to be located in three of the four European geographical regions in which KEF operates. These comprise the Nordic region, Central (countries such as Germany, Austria, Benelux and Switzerland), Southern (France, Italy, Spain), and the UK. "There are many vendors that are poorly served by finance companies and we think we can help", Richards remarks.

Broadening the emphasis

He has also shifted KEF's emphasis in Europe almost exclusively to financing IT and technology and has begun offering transportation, construction equipment, production equipment and medical equipment leases throughout its four regions. In the UK, focus is currently on transportation leasing as well as IT – an asset which, while still important to the business, nevertheless creates problems.

Partnerships with large European lessors

Against this background, last December Richards established a strategic partnership with UBS Leasing. This is important for two reasons. First, it showed he was willing to take risks. The arrangement is that KEF would offer operating leases to UBS's customers and thus take the residual value risk when the assets are returned at the end of the lease – something the Swiss bank had been unwilling to do itself. However, as Richards says: "We

INTERVIEW ALUN RICHARDS, KEY EQUIPMENT FINANCE

Says Richards: "The IT market is very cyclical. Also, its asset life-cycle of about three years is very short, so you have to run fast to replace your portfolio." He also hopes that by diversifying into new asset types it will be easier for Key "to weather any downturns".

Meanwhile, he has no immediate plans to expand into new regions. He says Eastern Europe is off the agenda in the medium term as KEF's business, although it is expanding, is insufficiently mature in Western Europe to consider growing into more turbulent markets. By this he means that, despite KEF having a physical presence in 15 European countries, in terms of scale, it is far short of the likes of SG Equipment Finance. Also for sheer size Eastern Europe is a minnow. "Italy alone is the same [in terms of volume of leasing assets] as the whole of Central and Eastern Europe combined," says Richards. Any work KEF receives from these regions he passes on to Raiffeisen.

Richards also has no definite plans for the UK, a country whose leasing business he regards as being too focused on tax benefits rather than "treating leasing as a business in its own right". He adds: "This is a bad thing, as tax laws always change." Last year, he points out, significant changes to US tax laws caused upheaval in the leasing

market. Instead, he advises, emphasis should be on "economic reliability".

Initial difficulties, but growth followed

Key Equipment Finance's European arm has come a long way since 1997. Sudden expansion into continental Europe, on behalf of an American bank which before had never gazed beyond its own shores, made for a difficult first few years. Rather than marketing itself under the admittedly unknown Key banner, it retained the LeaseTech name – the company it purchased to gain a European foothold. "It was a challenging initial phase as there was little international experience available, so it was difficult to realise value – and also a different culture, as it was an independent leasing company which was not regulated in the way Key was regulated."

Things did not significantly improve for a while. Its two exclusive European clients, Cisco Systems and Compaq, helped the business forward, but when they set up captive programmes in 2000, the loss was a "blow" to the KEF business.

But KEF staff worked hell for leather, and Richards, who joined KEF in 2003, describes the period 2001 onward as one of retrenchment and growth, which included strengthening its existing

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relationship with Unisys and diversification of its programmes. Richards is happy with KEF's organisation structure with 12 offices spread across the 15 countries in which it operates, along with one headquarters office per region. Overheads are kept down, mainly because it has a small workforce of 125. Like GE Commercial Finance, it has adopted Oracle's systems across all its European business. It also has a niche market: medium-sized deals for the middle market. That means it steers clear of the more mature clearing banks with deeper market penetration, and steers clear of small ticket receivables. Richards, it seems, has lodged Key firmly in Europe, and the rest of his parent bank may yet follow.

TIME LINE: KEY EQUIPMENT FINANCE ACROSS THE GLOBE IN 2005

March 19 ► Reports emerge that Key Equipment Finance is a creditor in the NorVergence bankruptcy. NorVergence had been accused of cutting monthly telephone, cellular and internet bills of small businesses. Key leased equipment to NorVergence.

July 19 ► Key Equipment Finance renews and strengthens its pre-existing alliance with Showa Leasing Co, the Japanese leasing company.

September ► Key launches the world's first pan-European lease management system. Developed by Oracle, it manages multiple accounting environments, languages and currencies, and is also capable of handling country by country accounting issues. Key expects roll-out of the system across all 15 European countries it operates in by the end of 2006.

October ► David G Timms appointed Vice President and Division Counsel.

October 18 ► Announcement of healthy third quarter results for Key Equipment Finance. Its receivables were valued at \$8.1bn representing growth of 2.5 per cent on the previous quarter and a

29.3 per cent upturn on Q3 2004. However, total revenues during the quarter dipped £3m in Q2 2005 to \$123m during Q3 2005. Nonetheless this was still above Q4 2004 earnings of \$110m.

October 20 ► Key launches equipment leasing services in South Korea. As well as providing financing for vendors in the south east Asian state, through its new Seoul office Key also hopes to deliver asset management "better asset management" and cash flow management.

October 25 ► Key Equipment Finance's president and chief executive officer, Paul A Larkins, begins his new post of chairman of the US' Equipment Leasing Association's board of directors. Larkins highlights growing the number of young people in leasing and greater diversity as his main aims.

December 1 ► Strategic partnership between Key Equipment Finance and UBS Leasing, the subsidiary of the Swiss private bank. Part of Key's plans to grow its European operations, the deal will give the US giant access to UBS' considerable leasing assets including mobile capital equipment and refinancing of tenancy agreements.