

# PURCHASE **OR** LEASE?

## A Guide to Equipment Financing





# Equipment financing: Which option is right for you?

Equipment is more than machinery — it's your livelihood. The difference between getting by and getting ahead. You've taken an important step forward in considering John Deere to meet your needs. But now the question is, "How should I pay for my equipment?"

What is your objective — to own equipment, or to operate it at the lowest cost per hour?

	Advantages	Disadvantages
<b>Cash</b>	<ul style="list-style-type: none"> <li>The transaction is over and done with immediately</li> <li>There's less paperwork</li> <li>You own the equipment outright from day one</li> </ul>	<ul style="list-style-type: none"> <li>You run the risk of depleting your cash reserves and coming up short in an emergency</li> <li>Investing in and growing your business operation is generally worth more than the cost of financing</li> </ul>
<b>All Leases*</b>	<ul style="list-style-type: none"> <li>Depending on term, advance lease payment less than down payment</li> <li>Flexible terms and payments</li> <li>Increased cash flow</li> </ul>	<ul style="list-style-type: none"> <li>Depending on the lease type, your equipment does not count as an asset on your financial statement (off-balance sheet financing)</li> <li>Subject to annual hour restrictions</li> </ul>
<b>Finance Lease*</b>	<ul style="list-style-type: none"> <li>Intent to purchase at lease maturity</li> <li>Higher payment may build equity</li> <li>Lower purchase option</li> <li>Can deduct depreciation for taxes</li> </ul>	<ul style="list-style-type: none"> <li>Unable to deduct payment for taxes</li> <li>Additional risk of ownership</li> <li>Subject to hour restrictions if lessee decides to walk away</li> <li>Additional maintenance</li> </ul>
<b>Operating Lease*</b>	<ul style="list-style-type: none"> <li>Off-balance sheet financing</li> <li>No intention to own</li> <li>Lower payments</li> <li>Deduct payment for taxes</li> <li>Paying only for equipment usage</li> <li>Right to return equipment</li> <li>Right to exercise purchase option</li> <li>Scheduled equipment replacement</li> <li>Newer fleet with less downtime</li> <li>Lower maintenance costs</li> <li>Risk averse</li> </ul>	<ul style="list-style-type: none"> <li>Hour restrictions</li> <li>May be responsible for damages at lease maturity</li> <li>Unable to deduct depreciation for taxes</li> </ul>
<b>Loan</b>	<ul style="list-style-type: none"> <li>You own the equipment when you're done paying for it</li> <li>You can depreciate the equipment</li> <li>The equipment appears as an asset on your balance sheet</li> <li>There are no hour limits</li> </ul>	<ul style="list-style-type: none"> <li>Higher up-front requirement (i.e., down payments)</li> <li>Payments are typically higher than a lease payment</li> <li>Tendency to keep equipment in fleet too long, causing high repair costs</li> </ul>
<b>Rent</b>	<ul style="list-style-type: none"> <li>Good for short-term projects, especially when the equipment is not likely to become part of your regular operation</li> </ul>	<ul style="list-style-type: none"> <li>No ownership</li> <li>Not a good option for long-term needs</li> <li>Generally higher payments</li> <li>Can be time-consuming, with travel time to pick up and return equipment</li> </ul>

\* The International Accounting Standards Board (IASB) has issued new accounting guidelines, which are effective in the near future, that provide for most leases to be recorded on the lessee's balance sheet. Please work with your accounting and tax advisors to determine any impact this may have on your decision to lease or purchase.

## Questions to consider when making the decision to lease or purchase

Consider your specific needs, explore your financing options, and make an informed decision based on the facts. And as your needs change, we can help you determine the right option for the future.

Our leasing options are a low-cost, low-risk alternative to purchasing equipment outright or taking on an instalment loan. Leasing is not as complicated as it seems. And since it can help cash flow, it's worth checking into. John Deere Financial knows which questions to ask to determine if leasing is right for you:

- Is my operation stable, expanding, or downsizing?
- What are my cash flow needs?
- How long do I need the equipment?
- What is my advisor saying about my tax situation?
- Am I risk averse?
- Is ownership important to me?
- Is running the newest and latest technology important to my operation?
- Is running equipment under warranty important to my operation?

Work with your accountant/tax advisor and your John Deere dealer to determine which financing solution makes the most sense for your operation. It may even be a mix of instalment financing and leasing.



## Compare your financing cost

Some believe that leasing is the most expensive form of financing because at the end of the term you still have to pay the purchase option in order to own the machine. However, this thought overlooks several key facts:

- This is only true if you purchase the equipment.
- If the equipment is not purchased, it can be returned, giving you a lower equipment-use cost than with instalment notes.
- Total lease payments are almost always less than the original cash price of the equipment.
- The money saved with lower cash up front and low lease payments can be reinvested into your business operation.

When comparing costs, it's important to take a comprehensive approach and consider all the factors involved — such as total payment costs, total costs including payments and purchase option, your internal rate of return (IRR), time value of money (TVM), and accounting and tax implications.

We recommend you consult your accountant/tax advisor to determine which financing solution makes the most sense for your operation. Structured properly, your overall lease cost can be lower than that of a loan — and much lower than the cost of paying cash.



## Frequently asked questions

**Q:** What makes leasing preferable to an instalment loan?

**A:** You pay only for the use of the equipment. Whether you choose a short-term lease (two to three years) or a long-term lease (four to five years), your payment will only be for the selected term.

**Q:** What sort of down payment can I expect with a lease?

**A:** A lease generally requires one annual payment up front. The up-front payment is also known as an advance payment.

**Q:** I've always owned my equipment. Why should I start leasing now?

**A:** Leasing lets you use the equipment only as long as you need it, and then return it with no further obligation. Compare costs. Make sure you ask your John Deere dealer to give you a quote for an instalment note and a lease.

**Q:** Will I have lower payments with a loan or a lease?

**A:** In most cases, a lease gives you lower payments. Since cash flow is often a concern in business operations, leasing may be a great alternative to instalment. In addition, leases do typically provide lower payments, and are also typically set up on a shorter term.

**Q:** Why package the lease with PowerGard™?

**A:** Keeping unexpected costs to a minimum is important for your operation. On select equipment, the purchase of PowerGard will not increase the lease payment and will qualify your equipment for warranty throughout the term of the lease. On short-term leases, your equipment may still have remaining warranty at lease maturity, which may add value to your equipment at lease maturity.