

Citilease: Realising Total Return on Capital

By taking advantage of a Citilease financial arrangement companies are ensuring that they have the ability to evolve their IT strategy and respond to market conditions without having to face financial penalty. The ability to change components when required alongside the affordability of the small monthly repayments would be an excellent argument for leasing the solution on their own. But when you couple this with the benefits listed below there is only one sensible route to choose when financing your IT strategy.

Any investment made by a corporate body must produce a return in order to make it worthwhile. When investing into the IT solution any company should be looking to maximise the following returns:

- Return on Investment
- Return on Capital



Return on Capital

Alongside accelerating Return on Investment the major benefit of choosing leasing as the method of financing a company's IT solution is that it is the only choice that allows an organisation to maximise Return on Capital.

All companies are encouraged to invest by the Government by being able to claim Capital Allowances on any purchases made. The size of these allowances are dependant upon the size of the company, but large companies qualify for 25% reducing balance writing down allowances. In order for a company to maximise return on capital they therefore must write down the asset over the life expectancy term (usually 3 years). This in itself is a small Return on Capital but doubling this with the inflexibility of not being able to change the solution until the end of the life expectancy term makes it a very expensive and restrictive funding arrangement.

The same Capital Allowances and therefore restrictions are applicable should the company choose their banking facilities as a means of financing the IT purchases, this is slightly increased by the ability to write off any interest payments against taxable profit.

But it is only through choosing a Citilease Leasing arrangement that you can offset 100% of the repayments against taxable profit. This ensures that the customer has the most cost effective solution and has the ability to restructure the agreement at any time to change and develop the IT solution.

We ask our customers to view their IT as an operating resource and pay for it in that manner. What we also have to take into account is that liquid funds are one of the most valuable resources that any company has. The average Return on Capital in the UK at the moment is 12.48% (Source: Financial Times August 2001), therefore we must look at the opportunity cost of tying up liquid funds in the IT solution. Leasing allows you to invest liquid funds into other areas of your business to realise the ROC above, combining this with the 100% tax allowances and the freedom to change at any time and it is obvious why a Citilease Leasing Agreement is becoming the most popular method of acquiring and developing IT Solutions.

Your Account Manager will be more than happy to run through your individual scenario.

Return on Investment

Whilst the method of financing a solution cannot directly affect the level of Return on Investment that is gained by any company investing into the IT solution, leasing can help in two areas:

- Accelerate Return on Investment: It is commonly accepted that should a company purchase an IT solution they would generally expect to wait eighteen months before seeing any Return on Investment. By choosing the leasing alternative it is possible to recognise an immediate Return on Investment as the monthly repayments are lower than the return gained, as shown in fig. 1.
- Minimise Risk: when embarking upon certain IT projects it is difficult to initially forecast what Return on Investment will be gained, and in extreme situations it could be discovered that the project has not lived up to expectations and is therefore terminated. Leasing the solution can protect companies from large initial outlays and minimise the risk.

Fig 1 Return on Investment with IT Solutions

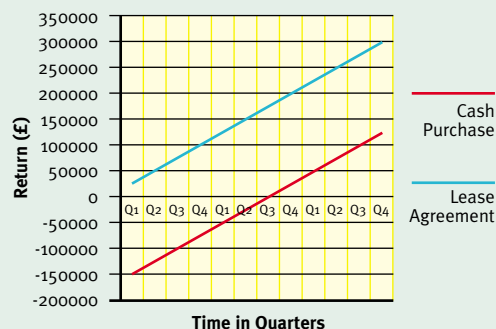


Fig 2 Total Return on Capital on £150,000 Transaction

