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Request for Proposal 2019

CALCULATING THE COST OF CAPITAL FOR COMPANIES AND TRANSACTIONS IN THE EQUIPMENT FINANCE INDUSTRY

Industry Background

The [Equipment Leasing & Finance Foundation](#) publishes research for and about the \$1 trillion [equipment finance sector](#). Equipment leasing and financing companies represent important sources of finance in the U.S. economy, contributing to capital formation and providing additional critical tools that enable all types and sizes of commercial businesses to acquire the equipment they need to conduct their business operations.

Problem Statement

What rate of return does a company need to earn on lease or loan investments to create shareholder value? This is the essence of cost of capital, and is applicable to public, private and subsidiary organizations.

After doing significant on-line research and consulting with retired academic Professor James Johnson, neither he nor the Foundation Research Committee know of any body of research that has accurately calculated the weighted average cost of capital using the Capital Asset Pricing Model (CAPM) for the various business types of companies in the equipment finance industry nor even an average for the industry's companies taken as a whole.

Certainly, many Association members use a cost of capital number upon which to base their equipment lease and loan pricing, but the question is: How accurate is the calculation? And, is it revised on a quarterly, semi-annual or annual basis? And is it being estimated properly?

In contrast, many Association members are too small to have a sophisticated approach to calculating their cost of capital, or the data to do so is not readily available. This study would provide that expertise to them.

Purpose of the Study

The purpose of the study is to teach members of the equipment finance industry how to accurately estimate their individual cost of capital given the structure of their company and their various business models. This will be done at both the transaction level as well as at the business level.

In addition, the purpose is to calculate an industry-wide average cost of capital that could be used by companies as a proxy for their cost of capital, and to introduce various calculation methods, including CAPM.

Issues to be Addressed in the Study

THE THEORY BEHIND COST OF CAPITAL AND ITS CALCULATION FORMULA

The study will start out explaining what is cost of capital, why it is important, how it should be used and why it should be used. It will then put forth the calculation formulae with detailed definitions of all components and descriptions showing how the calculations are to be estimated. The focus will be on such measurements as Risk Free Rate of Return, Market Rate of Return and Beta. The study will also examine the effects of leverage, a very important component, and discuss how leverage should be treated in the calculations.

Lastly, it will explore the theory of using a different cost of capital for each transaction versus an weighted average cost of capital for the business as a whole.

COST OF CAPITAL CALCULATION EXAMPLES FOR VARIOUS TYPES OF EQUIPMENT FINANCE BUSINESSES

In this section, example cost of capital calculations will be presented for the following types of leasing businesses, both levered and unlevered:

- Division of publicly traded bank
 - Money center
 - Nation-wide
 - Regional
- Division of privately held bank
 - Regional
- Division of publicly traded manufacturing company
- Division of privately held manufacturing company
- Publicly traded independent – large
- Privately held independent – large
- Publicly traded independent – small
- Privately held independent – small

This section will also explore the use of cost of capital on the transaction level so that each transaction, given its unique characteristics, is accurately priced and its contribution to the business as a whole is appropriately evaluated. It will discuss the reasons for and against using a different cost of capital for each transaction versus using an approximate weighted average cost of capital for the entire business. One factor to be addressed will be how asset, credit, geography and other elements of concentration impact the cost of capital calculation.

In addition, the section will look at how cost of capital plays into structuring and pricing leases and loans and how other risk estimates, such as SWAP rates, number of basis points, are involved when using cost of capital in making pricing decisions.

COST OF CAPITAL FOR THE EQUIPMENT FINANCE INDUSTRY TAKEN AS A WHOLE

The third chapter will attempt to calculate an overall average cost of capital for the equipment finance industry which could be used as an overall proxy for companies who do not want to embark on a more lengthy and complicated calculation.

Suggested Researcher Resources

The Foundation and its sister organization, the [Equipment Leasing and Finance Association \(ELFA\)](#), provide a variety of resources that may be relevant to this study, including:

- [The Equipment Leasing & Finance Industry Horizon Report](#)
- [The Archives of Annual State of the Equipment Finance Industry Reports \(SEFI\)](#)
- [Monthly Leasing and Finance Index \(MLFI-25\)](#)
- [MLFI-25 & Beige Book Quarterly Review](#)

Additionally, the Foundation has two major [databases](#) accessible to researchers:

- PayNet database of select equipment leasing transaction information from a statistically valid sample of equipment leasing companies
- Industry analysis database used to prepare the two annual ELFA overview publications noted above (SEFA)

The Foundation website (www.leasefoundation.org) provides additional information on resources available to its researchers.

Required Deliverables

It is the expectation of the Foundation that the final study will be delivered in no more than five months from contract date.

Specifics include:

1. All deliverables should be written for the lay reader and should be well-written
2. Monthly progress reports should be submitted via email to the Foundation's Executive Director.
3. The final Research Study Paper should be provided in Microsoft Word and PDF version. Charts and graphs should be provided in Excel or PowerPoint and should include source data. Study page count is variable: 30-50 pages. See our [Report Guidelines](#) for more details.
4. An article of approximately 2,000 words must be submitted for publication in the peer reviewed [Journal of Equipment Lease Financing](#). Please review our [Author Guidelines](#) specific to the *JELF*.
5. An abstract of approximately 250 words of project results must be submitted along with the first draft of the project. The abstract will be used to report the study to a general audience. The abstract must be written for the lay reader.
6. Upon request by the Foundation, you shall be available to present findings live and/or via web seminar.

Response Details

Submit your proposal to Kelli Nienaber, Executive Director of the Foundation, at knienaber@leasefoundation.org.

Information Required

1. Researcher (or Firm's) history and background
2. Experience/knowledge with lease finance research
3. Experience with nonprofit associations
4. Overview of the study design
5. Credentials and qualifications of staff to be assigned the project
6. References/client list, with written permission to contact
7. Description of similar studies performed by the researcher
8. If appropriate, description of how staff time and other costs are billed

Timeline and Contract Terms

- Proposals are due by the first of the month – contact the Foundation for specific dates.
- Proposal selection generally occurs within 30 days. The review committee meets the third Wednesday of each month.
- For further information regarding contract terms, see our [Research Grant Guidelines](#).

Selection Criteria

The Equipment Leasing & Finance Foundation is an equal-opportunity employer and submissions are considered without regard to the age, religion, ethnicity, gender, sexual orientation, marital or veteran status, political affiliation—or any other classification protected by law—of the author. The Foundation encourages the diversity of perspective and experience that result in a holistic view of the ever-evolving challenges and opportunities that face the equipment finance industry. As such, all interested researchers are welcomed and encouraged to submit their proposal for consideration.

The proposal should be based on original research about a future-focused topic benefitting a major segment of the equipment finance industry and include a detailed methodology for the proposed research project.

1. Experience in similar assignments
2. Resources/capacity to perform the required work
3. Experience with associations
4. Qualifications of the individuals who will perform the work
5. Knowledge of the equipment finance industry
6. Quality of the proposed study design
7. Price
8. References
9. Intangibles

For additional information on the grant process visit: www.leasefoundation.org/grants.

Staff Contacts

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About the Equipment Leasing & Finance Foundation

Established in 1989, the Equipment Leasing & Finance Foundation is a 501c3 non-profit organization dedicated to inspiring thoughtful innovation and contributing to the betterment of the equipment leasing and finance industry. The Foundation propels the equipment finance sector—and its *people*—forward with its industry-specific knowledge, intelligence, and programs. Through free studies, internships, and Guest Lecture opportunities, we help people navigate the changes coming up and make better business and personal career decisions. Since its formation, the Foundation has commissioned and endowed over \$3 million in primary and secondary research projects, doubling the body of knowledge available to equipment finance organizations and those that work with these financing organizations.

Foundation Operating Budget: \$750,000 for fiscal year ending December 31.

IRS Classification – 501c3

Staff – 3

Website: www.leasefoundation.org