



MACQUARIE

# Corporate and Asset Finance Group

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**Macquarie Group Limited**

Operational Briefing

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# CAF at a glance



**Providing tailored finance and asset management solutions to clients across specialised assets through the cycles**



# CAF's strategic focus

## Sizeable markets

- Deep markets present niche opportunities for growth
- Building scalable platforms
- Organic and selective acquisitive growth

## Stable earnings

- Annuity-style income streams
- Leases typically not prepayable
- Some loans not prepayable



## Appropriate return on capital

- Relatively low cost-to-income ratio
- Specialised service, expertise and long established client and partner relationships provide satisfactory ROE

## Attractive assets

- Focus on specialised assets with deep order books, long lead times and large customer base
- Marketable: Deep secondary markets ensure liquidity and residual value realisation
- Financeable: Ability to raise non-recourse funding through the cycle



# CAF: Key changes since 2010

## Lending

- Diversified by geography and industry
- Industries: TMET, Real Estate, Financials, Industrials, Infrastructure and Leasing
- Locations: London, New York, Chicago, Sydney, Singapore
- ~70 lending professionals globally
- Portfolio at Dec 11 \$A8.5b (Dec 09 \$A6.7b)

## Mining Equipment

- Recently established
- Finance range of mining equipment assets for above ground (e.g. dump trucks, excavators, diggers) and below ground
- Strong pipeline of opportunities
- Complements Macquarie's capabilities in resources M&A and commodity hedging

## Motor Vehicles

- Expanded presence in consumer finance sector (acquired Ford Credit and GMAC)
- Leading provider of white-label finance programs for auto manufacturers in Australia
- Entered dealer floorplan finance market
- Exploring offshore growth opportunities
- Portfolio at Dec 11 \$A6.1b (Dec 09 \$A5.0b)

## Transport

- Aircraft: consolidated within CAF April 11 post acquisition of Macquarie AirFinance Nov 10
- Rail: \$US457m of assets and growing
- Engines: non-core, sales in progress
- Portfolio at Dec 11 \$A4.1b (Dec 09 \$A0.5b)

## Equipment Finance

- Expanded vendor and channel offering
- Extended into Distribution Finance in 2011 - adding more services through the value chain
- Portfolio at Dec 11 \$A1.7b (Dec 09 \$A1.5b)

## Meters

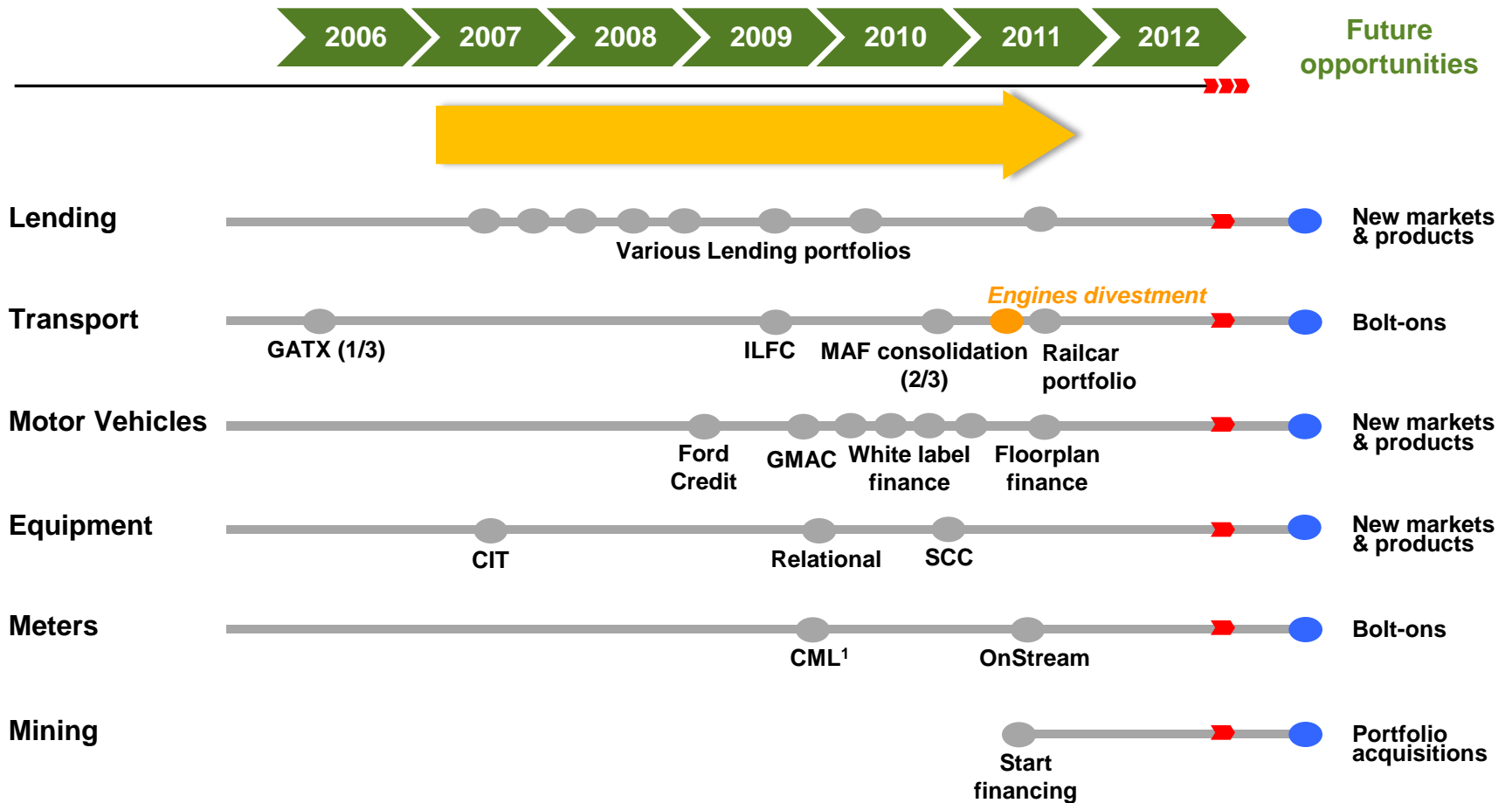
- £274m acquisition of OnStream Oct 11 (~x3 portfolio)
- 5.7m meters leased to major UK gas and electricity retailers
- Portfolio at Dec 11 \$A650m (Dec 09 \$A158m)

**CAF**  
Niche positions in  
deep, attractive  
markets



# Ability to adapt to changing market conditions

Selective focus on accretive acquisitions resulting in significant profit growth



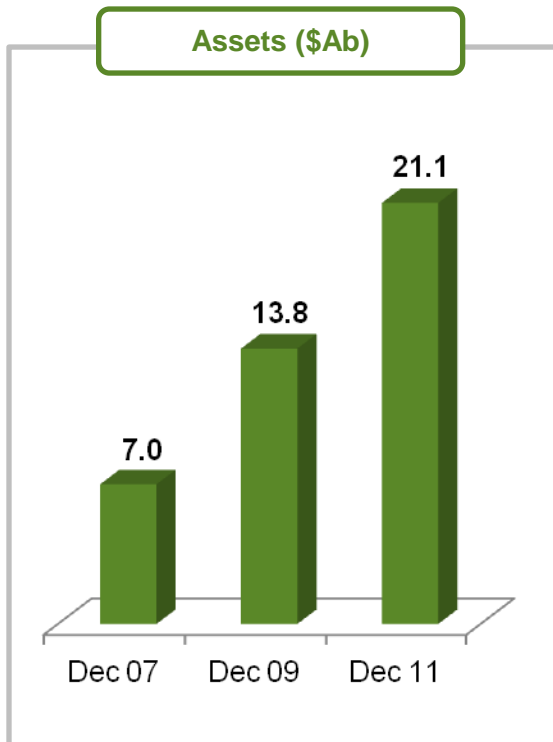
1. Buy out of CML's minority stake.



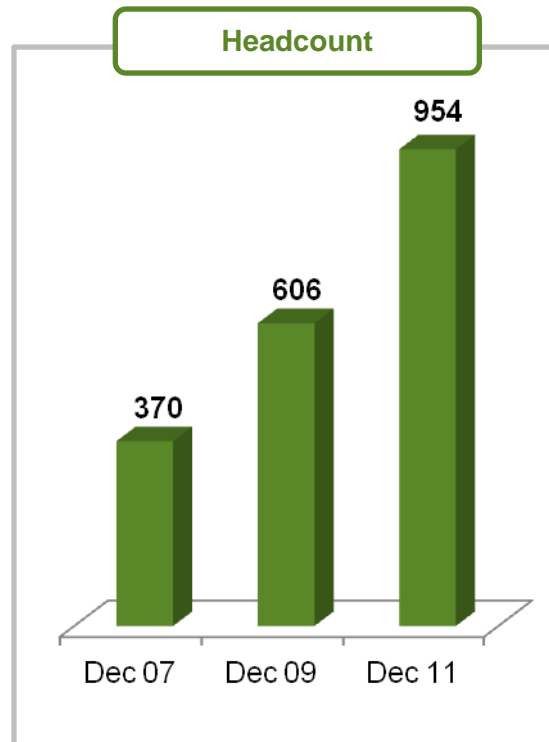
# Track record of growth

## Track record of growing profitably in cyclical markets

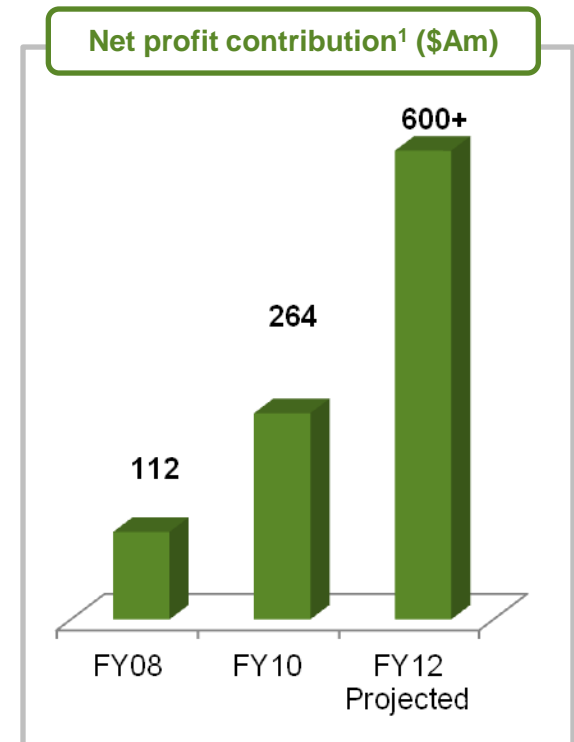
 ~53% since Dec 09  
Consistent origination and growth



Established hubs  
with functionality and support



 ~45%  
Growth on 1H11



1. Operating income represents revenues less those expenses directly attributable to the revenues. Net Profit Contribution is operating income less operating expenses and is reported before profit share and income tax.

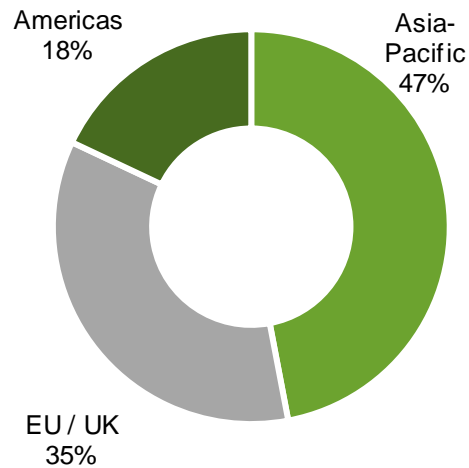


# CAF's diversified portfolio

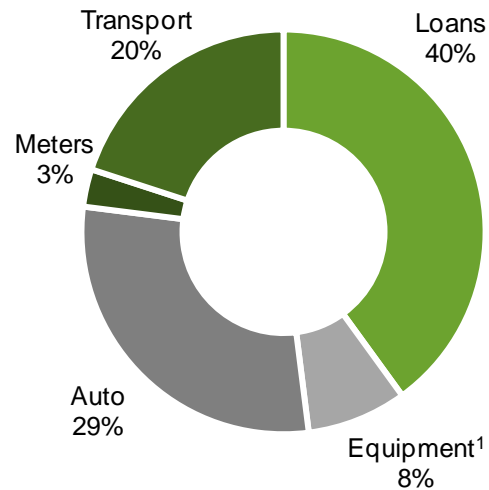
Portfolio of \$A21.1b

Diversified by geography, assets, industries, product types, exposure and clients

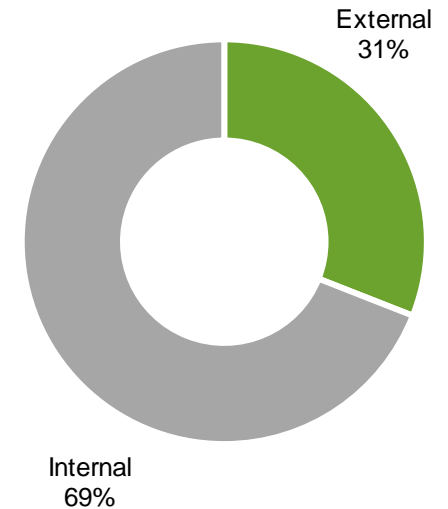
By geography



By assets



By funding source



1. Data as at 31 Dec 11. 1. Equipment includes IT&T, manufacturing, medical and materials handling assets.





# External funding programs

## Diversification of external funding, including non recourse debt, warehouses and securitisation

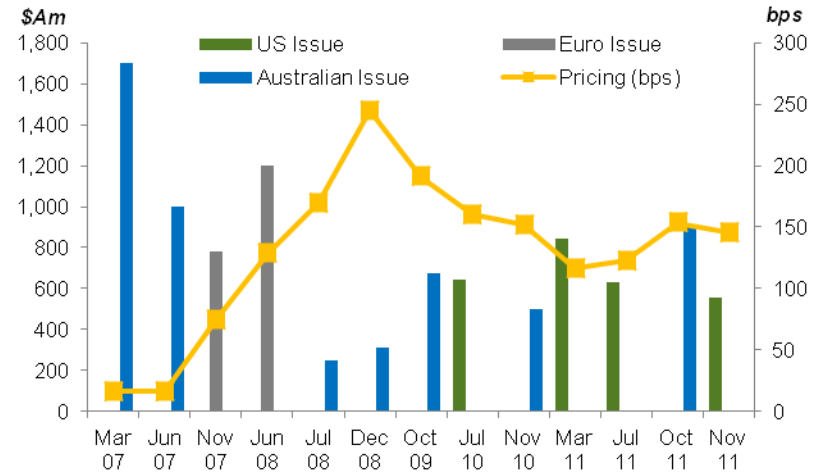
### Securitisation programs

**Continued access to securitisation market through the cycle - reduced reliance on MBL funding**

- Highly attractive collateral: financeable assets meeting broad investor demand
- Recognised issuer in the securitisation market with two ABS programs
- SMART: a long established term issuance platform with international presence
  - SMART 2010-1 US: First ever Australian auto issuer in the US
  - Last three issues (2 x US and 1 x Australia) upsized due to significant investor demand
- MEF: new platform established in 2011

	SMART	MEF
Collateral	Australian auto and equipment	US equipment leases
Established	2002	2011
Issuance to date	\$A10.0b	\$US0.3b
Recent issuance	<ul style="list-style-type: none"> <li>▪ \$A842m, Mar 11</li> <li>▪ \$A633m, Jul 11</li> <li>▪ \$A900m, Oct 11</li> <li>▪ \$A553m, Nov 11</li> </ul>	<ul style="list-style-type: none"> <li>▪ \$US341m Mar 11</li> </ul>

### SMART ISSUANCE



### Recognition – SMART 2011-3 Awards

- AsiaMoney Best Securitisation deal in the "Deal and Investment Bank Awards - Australia" category
- Insto ABS deal of the year award
- The Asset AAA Regional Awards - Best Australian Securitisation Deal

**ASIAMONEY**





# Maintain strong credit and asset discipline

## Strong credit discipline

### Low levels of historical credit losses relative to growth and despite market conditions

- High level of Risk Management Group oversight and reporting across CAF
- Experienced executives and strong underwriting processes
- Strict and regular monitoring of clients leads to active portfolio management and credit loss mitigation
- Conservative provisioning practices

## Strong asset discipline

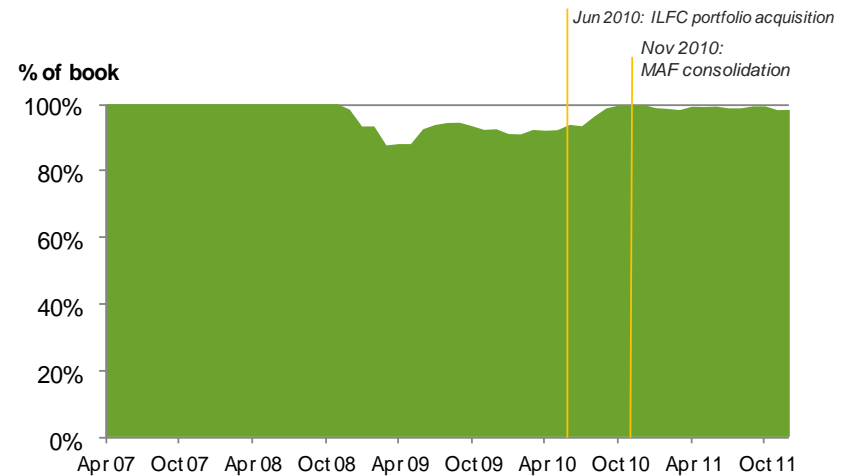
### Continued high levels of utilisation and strong end of lease profitability

- High utilisation rates across transport assets
- Close monitoring of portfolio, clients and pricing conditions optimise utilisation rates as market conditions change
- Strong and consistent inertia income for technology assets
- Maximise residual value capture via established global sales channels, logistics management expertise and contracted third-party remarketing arrangements

## Write offs



## Asset discipline example: Transport asset utilisation



1. Leasing includes Motor Vehicles and Equipment businesses.

## Business and strategy

- Loan portfolio originated through primary and secondary channels via dedicated teams
- Focus on senior secured
- Supporting domestic and international clients
- Diverse range of industries:
  - TMET, Real Estate, Financials, Industrials, Infrastructure and Leasing
- Loans acquired on a hold-to-maturity basis
- Current portfolio weighting is towards:
  - Senior secured loans (predominantly non-investment grade)
  - Cashflow lending, with a minority of asset-based lending
  - Maturity of between 3 and 5 years, with some loans up to 7 years
  - Loans in Australia, North America, UK and Western Europe



## Risk management framework

- Focus on ensuring return for each loan adequately covers risk and we recover our principal in the face of highly stressed situations
- Ongoing monitoring of positions by RMG and CAF:
  - Framework of regular reviews across all loans
  - Heightened monitoring for problem or high risk loans

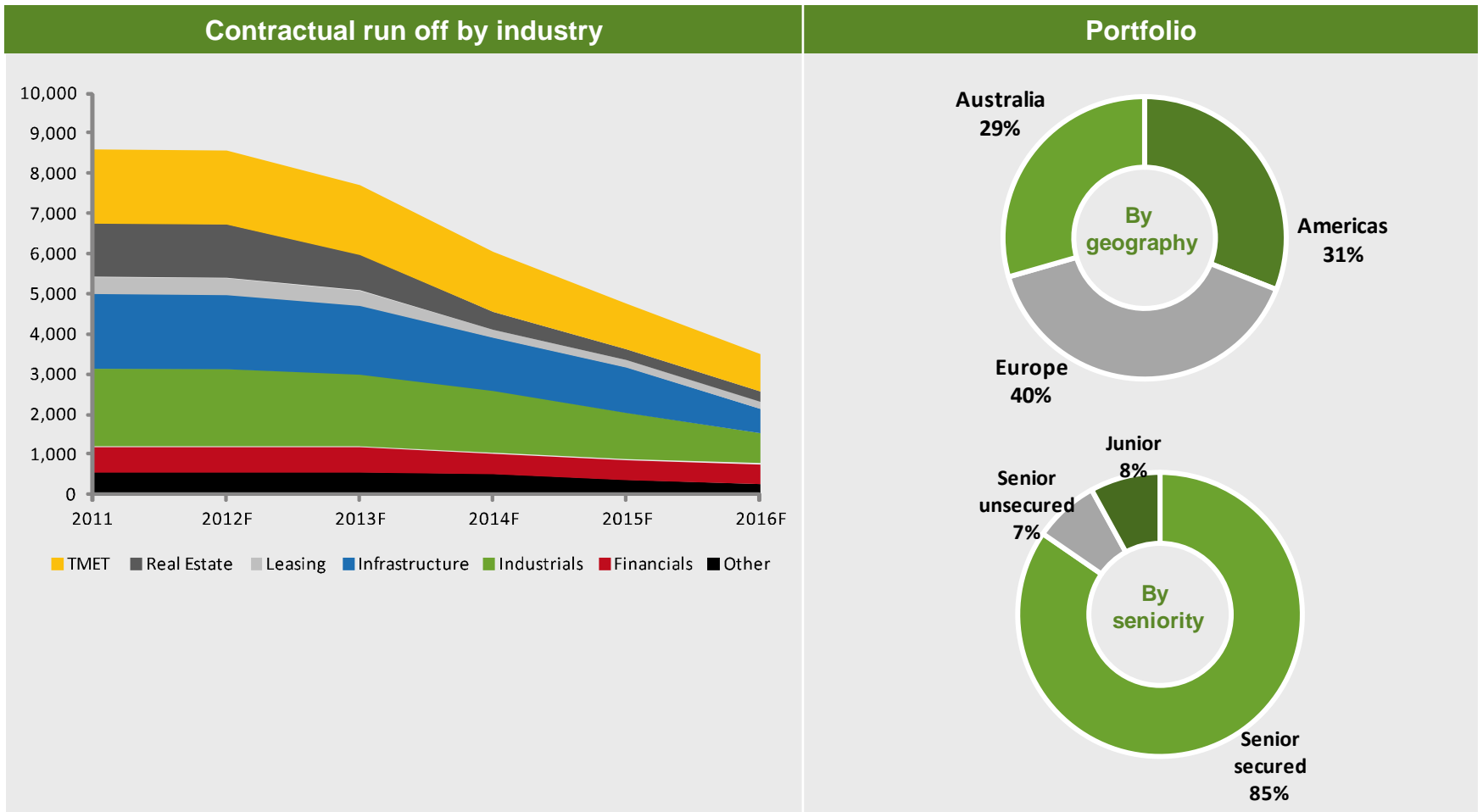
## Portfolio

- Dec 09: Loan portfolio size of \$A6.7b
- Dec 11: Loan portfolio size of \$A8.5b



# Lending Total portfolio

Total portfolio of \$A8.5b



## Business and Strategy

- Leading lessor of commercial aircraft worldwide with 134 aircraft on lease to 67 airlines in 42 countries
- Predominantly current and widely used narrowbodies with weighted average age ~7 years
- Growing lessor of freight railcars in North America with 10,000 cars
- Actively manage leases and acquire attractively priced assets through industry cycle
- Selectively realise gains through asset sales as opportunities arise



## Portfolio

- Dec 09: portfolio size of \$A0.5b<sup>1</sup>
- Dec 11: portfolio size of \$A4.1b

## Market

### Aircraft

- Aircraft leasing yields remain satisfactory, but effect of economic uncertainty on industry justifies a cautious outlook
- Long backlog for new build aircraft generating significant financing requirement and potential future opportunities

### Rail

- Competitive market, with assets owned by lessors, shippers and railroads
- Improving leasing market after the downturn in 2009/10

## Initiatives

- Ongoing aircraft asset and asset-backed loan acquisition opportunities as existing players (including European banks) exit and re-weight portfolios
- Recently sold engine leasing business to focus on core asset classes with scale
- Rail recently acquired a portfolio from a lender foreclosure

## Extending finance through the customer value chain

### Business and Strategy

- Leading provider of auto finance in Australia
- Indirect and direct origination of auto leases / loans for SMEs and consumers clients
- Strong IT systems enable market-leading service levels and collections efficiency
- Diversification of funding and focus on costs
- Organic growth across all sectors of business
- Opportunistic purchases in Australia and internationally



### Portfolio

- Dec 09: portfolio size of \$A5.0b
- Dec11: portfolio size of \$A6.1b

### Market

- Competitive market with domestic banks, original equipment manufacturer (OEM) captives (Toyota, Nissan) and foreign players
- Demand and credit performance have been resilient in recent years

### Initiatives

- Over past two years has become a leading provider of white-label finance programs for OEMs / auto manufacturers in Australia
- Entered dealer floorplan finance market to enhance offering and improve origination of direct retail volumes
- Exploring offshore growth opportunities

**myFord Finance**



**Honda**  
Financial Services



Volvo Car  
Financial Services



**Chrysler Group** FINANCIAL



# Equipment Finance

## Extending finance through the customer value chain

### Business and Strategy

- Combined Equipment Finance and Manufacturing Finance into single global business unit - Macquarie Equipment Finance
- Leading provider of operating leases, asset management and trading of equipment for equipment vendors and end user customers
- Financing provided over a broad range of equipment types, including healthcare, technology, communications, materials handling, manufacturing and related equipment
- Targeting major equipment vendors and customers with multinational or customised requirements



### Market

- Volumes still recovering in most regions as customers slow purchases due to economic uncertainty
- Withdrawal or material reduction from market of a number of major European finance providers is expected to create opportunity
- Customers and vendors are seeking a reliable financing partner who can provide services across a range of products and geographies in a uniform way

### Initiatives

- Substantially expanded vendor and channel business offering and focus
  - Currently operating as Dell Financial Services (DFS) in India and Australia
  - Operating as Fujitsu Financial Services in Europe, Australia, New Zealand and US
- Expanded into Distribution Finance and US small ticket markets in 2011 to add more services through the value chain for equipment vendors
- Standardising business systems and processes globally

### Portfolio

- Dec 09: portfolio size of \$A1.5 billion
- Dec 11: portfolio size of \$A1.7 billion





# Maximising market opportunities

## Case study: Meters acquisition

### Adjacency

**2003**

- 2003: Market entry through Capital Meters Limited - transaction originated and structured by Macquarie Capital
- Contract to install, service and lease electricity and gas meters in UK
- Adjacent leasing and energy expertise



### Build

**2003 – 2011**

- 2006: Entered smart meter market
- 2010: Bought-out minority shareholding in Capital Meters Limited
- Tight focus on cost control and maximising return

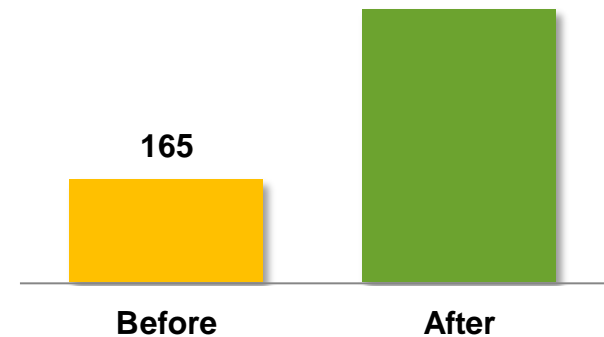


### Opportunity

**October 2011**

- Transformational acquisition
- Acquired OnStream for £274m gaining 4.2m meters
- Material increase in scale and profitability – approx. 3 x increase in meters portfolio to total of approx. 5.7m meters

**Assets (£m)**







# Adapting to market conditions

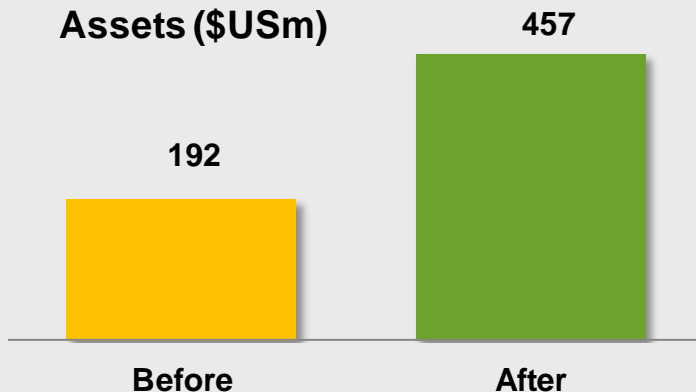
## Case study: Rail acquisition

### Doubled CAF's rail portfolio

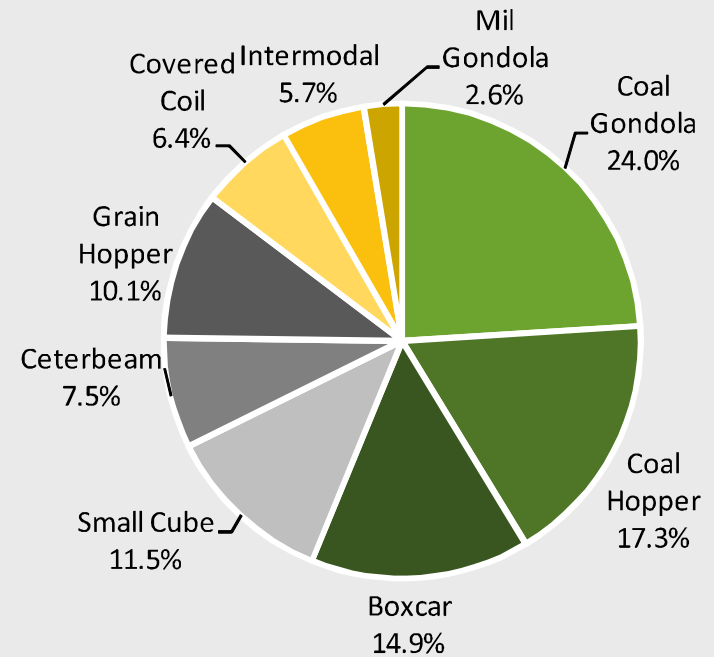
#### Transport's railcar business

- Operating in North America since 2005
- Leases diverse range of freight railcars
- Portfolio acquisition of North American rail freight cars
- Acquired portfolio of approx. 4,600 general service rail cars on lease to 35 operators in US and Canada
- Doubles size of CAF's rail portfolio
- Total assets approx. \$US457m

#### Assets (\$USm)



#### Acquired portfolio



## Cost management and returns focused

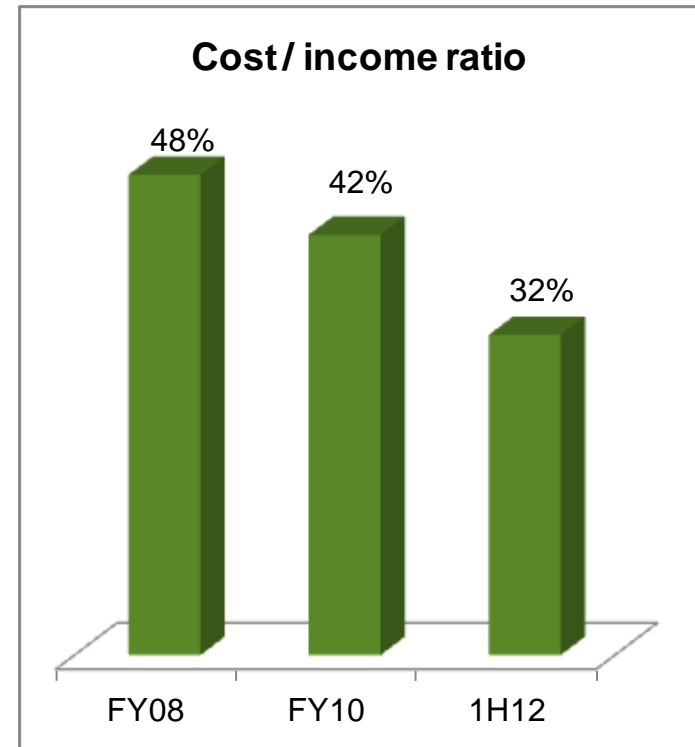
### Platform efficiencies

- **Combine platforms:** Equipment Finance and Manufacturing Finance combined into single global business unit with multiple sales teams and shared platforms to reduce duplication, centralise management / direction and reduce operating costs
- **Exit non-core business:** Engine leasing sale announced September 2011

### System efficiencies

- **Improved functionality:** New loans / lending IT system has measurably reduced operational risk, improved reporting / accounting functionality and reduced number of manual reconciliations
- **Systems platform:** Global project underway to implement a standard leasing system / platform across all operating lease platforms to generate scale / economies for organic growth and growth through acquisitions

### Cost/ income ratio





## In summary

**Providing tailored finance and asset management solutions to clients  
across specialised assets through the cycles**

Niche positions in deep,  
attractive markets

Origination through  
the cycles

Strong credit and  
asset discipline

Strong funder  
and investor demand  
for assets

Cost management  
and returns focus

Successfully  
converted opportunities  
during cycles