PROLOGIS ESSENTIALS

Equipment Finance FAQ

Keep Products Moving Without Delay

Prologis leverages its scale to bring you better value when procuring and servicing forklifts and other material handling equipment. With our partners, we are able to offer flexible purchasing and financing options on a wide range of equipment.

WHAT IS EQUIPMENT FINANCING?

Equipment financing helps various industries and businesses of all sizes acquire the equipment needed to conduct everyday operations. Typically, a company will enter into a loan or a lease agreement in order to purchase or rent equipment for business use.

WHAT CAN I FINANCE?

You can finance nearly anything essential for your business, including new or used equipment. Examples include forklifts, racking, conveyor systems, telephones, networking, general IT, tools and transportation vehicles. You might also be able to bundle shipping, installation, tax, maintenance and other costs associated with your asset (typically referred to as "soft costs"). This is often referred to as 100% financing.

WHAT IMPACTS THE INTEREST RATE?

Rates vary by term, transaction size, creditworthiness, the asset being financed, market conditions and other factors.

WHAT ARE AVAILABLE FINANCING OPTIONS?

The most common financing structures are **loans** and **leases**. Depending on the asset type, different structures might be available. For leases and loans, if payment can no longer be made, the equipment will be repossessed as collateral.

HOW DOES AN EQUIPMENT LOAN WORK AND WHAT ARE ITS KEY BENEFITS?

You take immediate ownership of the equipment and the lender takes a security interest. This arrangement might include an end-of-term "balloon payment," meaning you would not repay the full principal of the loan over the life of the loan. The lender releases its lien on the asset when the loan is paid in full.

Typically, the owner benefits from the deductibility of interest expense paid to the lender and the tax depreciation on the purchased asset (the equipment). Under current tax rules accelerated depreciation may be available. Loans may be useful for businesses that don't want to tie up cash in one large equipment purchase, but want to hold legal title to the equipment.

Key Benefits of Financing

— Avoid large, upfront outlays of cash. Acquire equipment through affordable monthly payments.

— Conserve capital to reinvest in your business.

— Enjoy favorable fixed-rate market terms. Payments may be structured to match your cash flow.

— Financing size and terms can be tailored to the useful life of the assets.

— Take advantage of up to 100% financing. Traditional loans typically only fund the asset.

— Preserve credit capacity. Traditional loans may immediately reduce your available credit with a lending institution.

— Benefit from attractive structures and amortization. Generally longer terms than the traditional bank market.

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HOW DOES AN EQUIPMENT LEASE WORK?

For leases, the lessor owns the rights to the equipment and the lessee is paying a rental amount to use the equipment over a specified period of time and often under specific restrictions on the use. There are different lease structures:

NON-TAXABLE/CAPITAL LEASE	TAX LEASE/TRUE LEASE
In a capital lease, the asset shows up on the lessee's balance sheet throughout the duration of the term. This approach might be attractive to companies that want to accelerate the deduction of the purchased asset through a Section 179 deduction and/or accelerated depreciation.* Since it is similar to purchasing the equipment with a loan, a capital lease is often used when a business plans to keep the equipment for a long period of time, or when obsolescence is not a concern.	In an operating lease, the asset does not appear on the lessee's balance sheet, typically allowing the lessee to deduct the monthly lease payments as an operating expense. The lease allows for lessee to retain ownership at the end of the lease. This arrangement might be beneficial if on is upgrading the equipment frequently or the business does not otherwise want to keep the equipment at the end of the lease term.
$1 Buyout Lease: A long term lease that gives lessee (you) most rights and obligations of the asset. The asset shows up on your balance sheet throughout the duration of the term. At end-of-term, the lessor transfers full ownership of the asset to you for $1. Typically, this arrangement is attractive to qualifying businesses that want to take advantage of accelerated depreciation. Portions of the monthly payments may also be deductible.	**Fair Market Value (FMV) Lease:** Lessor owns the equipment and you rent it from the lessor. At the end-of-term, you can purchase the equipment for its then fair market value, return the equipment or renew at FMV rents. An early buy-out option might be offered. This arrangement can be beneficial if you are upgrading equipment frequently.
Purchase Upon Termination (PUT): Lessees must purchase the equipment at the end of the term at a pre-determined amount. Example: 10% PUT = purchase the equipment for 10% of the original cost.	**10% Option Lease:** A 10% residual is guaranteed on the equipment and allows companies the option to purchase the equipment for 10% of the original cost.

*2020 Section 179: Many companies prefer to accelerate depreciation on business assets during the first year versus over several years. With Section 179, qualifying businesses with eligible equipment may write-off up to $1,040,000, lowering the cost of equipment acquisition.

You should not consider this as tax or legal advice. Consult with your tax advisor regarding the specific impact on your business and qualifying assets.

WHAT IMPACTS THE INTEREST RATE?

Interest rates determine either the interest charge on a loan or the monthly payment amount for a lease. Interest rates vary by term, transaction size, creditworthiness, the asset being financed, market conditions and other factors.

WHAT TYPE OF INFORMATION IS NEEDED FOR A FINANCING REQUEST TO BE REVIEWED?

This will vary by transaction size. For transaction amounts $250,000 and under, a one-page application may be all that is required for approval along with a copy of the quotes for the equipment that is being acquired. For larger transactions sizes, financials will be requested.

Some Key Uses and Benefits of Leasing

- Asset Management: Facilitates routine equipment replacements required by wear and tear
- Upgrades: Leasing may allow for easy upgrades helping your equipment stay current to your business
- Growth: Need for additional equipment to expand and grow your business
- Dollar Expansion: Limited capital expenditure dollars or accelerated cap ex needs
- Obsolescence: Risk of obsolescence may be on the lessor when there is no obligation to own the equipment at the end of the lease.
- Tax Benefits:
  - Capital Leases: Asset purchase price can be deducted via Section 179 or (accelerated) depreciation
  - Operating Leases: Lease payments can be deducted from operating income (analogous to monthly rental payments).

HOW CAN PROLOGIS HELP IN OBTAINING EQUIPMENT FINANCING?

Prologis has established relationships with certain financing providers and can refer to you a lender to work with you towards a financing solution.

WHO SHOULD WE CONTACT?

You can speak with your Prologis Essentials contact if you are interested in equipment financing.

HOW LONG DOES IT TYPICALLY TAKE TO SET UP EQUIPMENT FINANCING?

Financings of between $250,000 and $500,000 can generally be approved the same day. Deals over $500,000 generally take anywhere from 1 to 3 days.

IS PROLOGIS A PARTY TO THE EQUIPMENT FINANCING?

Prologis is not a party to the financing arrangement. The lease or financing will be between you and the lender.

CAN PROLOGIS ADD THE MONTHLY COST OF THE FINANCING TO THE MONTHLY RENT/LEASE PAYMENT (LIKE CLEAR LEASE® OR BUNDLED SERVICES)?

Prologis cannot bundle the monthly cost of the equipment financing with the property lease payments paid to Prologis. As mentioned above, Prologis is not a party to the financing relationship. You will pay the lender directly—and you can rest assured that the lenders strive to set it up to be easy for you. Often you will set up ACH with lenders.

Consult your tax advisor for details and the specific impact to your business of any equipment financing since each company's situation varies.

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