

# Reasons to be positive about 2009

**Philip Davies**, Managing Director of LPM Outsourcing, sees reasons to be cheerful

Many of the people writing about their thoughts for 2009 will be distinctly gloomy, fuelling concerns about challenging times ahead for the foreseeable future. This is undoubtedly going to be the case for many, but not all, companies within the leasing industry, including LPM Outsourcing. As Jan Szmigin, editor of *LeasingWorld*, said during a recent meeting, LPM are like a phoenix that rises every time there is an economic downturn, and he couldn't have summed up how we see the coming year more appropriately – for us it is full of opportunity.

LPM Outsourcing is going to be 21 years old next year, and apart from the obvious connotations of coming of age this provides, it is also a chance for us to benefit from the experience gained last time we faced such tough times. Over the past two decades, we have been providing a wide variety of back-office administration services for a broad range of clients, e.g. manufacturer captives, leasing providers, even public sector bodies such as the British Transport Police. Although their industries are diverse, what we do for them is very consistent, it is invoicing, billing and collections, and this pattern will continue although we'll be dealing with a different set of customers.

In this coming year we see demand returning from insolvency practitioners for portfolio run outs, services we last saw a big demand for during the previous recession of the early 1990s. Insolvency practitioners come to us because they appreciate that by running out the portfolio, greater returns can be delivered to creditors. This was the outcome we achieved for Dominion/KPMG, which realised its full book value, well in excess of original expectations, of recouping 60 pence in the pound owed. And there are many other insolvency success stories.

However, in the 2009 recession, because of the credit crunch and a lack of available finance, in addition to working with insolvency practitioners, we are expecting to see a number of different types of organisation interested



**Philip Davies**

in run out services. In particular, we are already receiving a high level of interest from private equity groups, and hedge funds. These organisations are looking to acquire portfolios, be it car finance, plant and equipment or office equipment, at heavily discounted prices, and to make a fast profit. Yet, while these investment funds have the money to buy credit-intensive portfolios, they require experienced, and readily available, resources to run them out from day one. These are distressed portfolios, and can be notoriously difficult to collect money from, so the funds need specialist partners to manage collections, which is where LPM Outsourcing comes in.

In addition to the investment funds, we also expect a lot of interest for run outs to come from the leasing and asset finance sector itself. These are not necessarily going to be distressed businesses, although there are likely to be a fair number of these, but also businesses that are struggling to meet additional resource requirements as the volume of arrears they need to manage increases. In addition, we will see interest from finance businesses that have made a strategic decision to exit a difficult sector but, because of the difficulties facing parent companies to get an acceptable price for their businesses, they will be turning to LPM Outsourcing to run out their existing

portfolios as an alternative.

In fact, this extra volume of work from within our sector could mean a more widespread acceptance of the practice of outsourced administrative services, and change perceptions for good. In the past, some clients have been a little sensitive should it become widely known that they are outsourcing to a company like LPM Outsourcing. We think this unnecessary secrecy will decline as increasing numbers of people start to acknowledge that third party services, such as ours, provide vital resources at times when resources are stretched or restricted under headcount limits.

Now turning to the leasing business more generally, whilst we acknowledge the more optimistic comments from some experts, we see things getting really tough for companies, and predict business volumes to reduce overall. We also see the volume of arrears increasing because people are struggling to pay, and we expect a consolidation in the marketplace.

Finally, as to the question mooted in a recent issue of *LeasingWorld* about whether asset based finance is going to be “booming” during this recession. Whilst theoretically this is possible, it is a point of view which we do not subscribe to, for two key reasons. Firstly, there will be less investment in capital equipment to begin with, and secondly, because we are in a recession, the value of the assets taken as security will reduce, making it more difficult to put an asset finance deal together in the first place.

So while the view that asset based finance will boom in this credit crunch era is technically feasible, at a practical level it's unlikely. But who could have foreseen what was lurking around the corner this time last year, and we'll be interested to see what 2009 actually brings us! We're all going to be under intense pressure in this coming year, but overall, LPM Outsourcing feels positive about the year, and the new opportunities ahead.

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