How to Manage a International Equipment Leasing Program:

Best Practices for Corporate Lessees

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Agenda

• The Cummins leasing story
• Why corporate lessees lease
• Common lessee problems
• Best practices for international lessees
• Q&A
The Cummins Leasing Story

- Cummins corporate overview
- Cummins leasing program
  - Equipment we lease
  - Why Cummins leases equipment
  - Problems with equipment leasing program (<2010)
  - Strategies and Results
Disclosure Regarding Forward-Looking Statements & non-GAAP Financial Measures

This presentation contains certain forward-looking information. Any forward-looking statement involves risk and uncertainty. The Company’s future results may be affected by changes in general economic conditions and by the actions of customers and competitors. Actual outcomes may differ materially from what is expressed in any forward-looking statement. A more complete disclosure about forward-looking statements begins on page 3 of our 2010 Form 10-K, and it applies to this presentation.

This presentation contains certain non-GAAP financial measures such as earnings before interest and taxes (EBIT) and net income and diluted earnings per share (EPS) attributable to Cummins Inc. Please refer to our website (www.cummins.com) for the reconciliation of those measures to GAAP financial measures.
Cummins Inc., a global power leader, is a corporation of complementary business units that design, manufacture, distribute and service engines and related technologies, including fuel systems, controls, air handling, filtration, emission solutions and electrical power generation systems.

Corporate Headquarters: Columbus, Indiana
Stock Symbol: CMI (traded on NYSE)
Founded: 1919
2010 revenues: $13.2 billion
Fortune 500 rank: 186
2010 net income: $1.0 billion
Employees: 40,000 serving customers in 190 countries
Distributor locations: 600 company-owned and independent
Dealer locations: 6,000
Diversified Global Power Leader

Four Complementary Businesses

Engines

Power Generation

Distribution

Components
Engine Products

• Automotive
• Industrial
• Marine
• Mining
• Rail
Engine Applications
Powergen Products

- Diesel & gas genset
- G-Drive
- Alternator
- Power electronics
- System design
- Energy Solution
Cummins – Historical Performance

Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (in $ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$13,048</td>
</tr>
<tr>
<td>2008</td>
<td>$14,342</td>
</tr>
<tr>
<td>2009</td>
<td>$10,800</td>
</tr>
<tr>
<td>2010</td>
<td>$13,226</td>
</tr>
<tr>
<td>Q2'11 LTM</td>
<td>$16,041</td>
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</table>

EBIT

<table>
<thead>
<tr>
<th>Year</th>
<th>EBIT (in $ millions)</th>
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</thead>
<tbody>
<tr>
<td>2007</td>
<td>$1,227</td>
</tr>
<tr>
<td>2008</td>
<td>$1,257</td>
</tr>
<tr>
<td>2009</td>
<td>$774</td>
</tr>
<tr>
<td>2010</td>
<td>$1,657</td>
</tr>
<tr>
<td>Q2'11 LTM</td>
<td>$2,229</td>
</tr>
</tbody>
</table>

1 EBIT excludes restructuring charges of 37M and 99M in 2008 and 2009, respectively. Also, the gain from exhaust business transaction of 68M is excluded from Q2-11 LTM.

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Taking Actions to Emerge Stronger from Downturn

- Aligning manufacturing capacity with real demand
- Reducing costs to earn a solid profit during recession
- Generating positive cash flow
- Investing in critical growth projects and technologies
Continued Focus on Being Low Cost Producer

- Capture productivity and manufacturing efficiencies
- Improve all elements of supply chain performance
- Reduce cost of product coverage

![Graph showing Engine Business with data points for Q408 to Q310. The graph includes bars and a line chart with segments Sales ($B) and Segment % EBIT.]

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Why Cummins leases equipment

_Treasury Strategy_: Corporate Treasury does not advocate purchasing or leasing. Local budget owners make decisions. Treasury provides policy, process, advice, support, and tools.

**Why budget owners choose leasing:**

• _Economics_
  – Less expensive than buying
  – Greater flexibility than buying
  – Outsourcing management of residuals to best local lessor
  – Improve ROA and ROE

• _Liquidity_
  – Budget management
  – Align costs with incremental usage
  – Avoid tying up cash in depreciating assets
Equipment We Lease Worldwide

• Aircraft

• Automobile: Car, Van

• Building Equipment: HVAC, Fire Alarm, Bldg Alarm, Bldg Access, Security Cameras

• Cleaning Equipment: Floor Scrubber

• Computer Equipment and Peripherals: Notebook, Laptop, Desktop, Servers, Blades, Storage, Monitors, Screens, Software, UPS

• Industrial Equipment: Compressor, Compactor, Waste Dispenser, Pumps, Scales, Washing Machine

• Lab and Testing Equipment: Engine test room Databox
Equipment We Lease Worldwide cont.

• **Manufacturing Equipment:** Conveyor system, Barcode Equipment, Stretch Wrap Machines, Packer,

• **Material Handling Equipment:** Forklift, Battery/Charger, Rotator, Pallet Mover/Trolley, Tuggers, Crane, Burden Cart, Engine Movers, Counter Balance

• **Networking, Telephone, and TV Equipment:** Routers, Bridges, Hubs, CCTV

• **Office Equipment:** Postage Machine, Coffee Machine, Water Dispenser, Copier, Fax Machine, Vending Machine, Scanners, Printers, Radios

• **Pallets**

• **Trucks:** 3 wheels, flatbeds, pick-up trucks, Cherry Picker, other trucks
Problems with Leasing Program in 2009

- Did not trust accuracy of data for financial reports
  - Could not measure financial performance of portfolio
- Lessee software did not work – vendor was out of business
  - Poor visibility – no reliable reports or required workflow
  - Tried exporting and maintaining in excel
- Poor decision-making: no standardized lease vs. buy process
- Insufficient competition for lease pricing
  - Relationships with captive lessors was too tight – economics hidden
- Considerable evergreen payments:
  - Inability to track leases and assets
  - Inability to make timely end-of-term decisions
- Complex, fragmented software environment:
  - Ariba for procurement
  - Several ERP platforms – Oracle for most business units
  - Oracle for financial reporting
- Lack of policy, process and controls
Results

- Established Integrated Lease and Asset Database
  - Engaged outsourcing partner for expertise, process administration, and software services in 2010
  - Captured and abstracted over 4,200 equipment lease documents (MLAs and schedules) to create auditable database
    - 2,200 captured in under 6 months
    - More than 1,000 had to be translated to English first
    - 44 countries
  - Integrated software services with Ariba Procurement and Oracle G/L, A/P for seamless data integration
  - Generated financial reports used for SOX-compliant financial reporting (10k notes disclosure), including contractual obligations related to operating and capital leases – within 9 months of start
Results

- **Established scalable, global leasing process**
  - *Cummins lessees around the world transact using same process and web-based software system*
    - submit an Asset Request Form that automatically generates a detailed Lease vs. Buy analysis and indicative FAS 13 test
    - generate and distribute RFP's to lessors in the appropriate country with the support of outsourcer’s team
    - select the winner (typically the lowest bidder) via Proposal Analysis and Ranking system and complete the transaction
    - outsourcer captures the transaction, including all documents and data at the asset level
  - *captured and identified leases beyond initial term in evergreen payment status and facilitated return or purchase of equipment*
Results & Current Actions

- **Increased Visibility**: All stakeholders have visibility into the lease portfolio and process over all stages of the lease lifecycle -- using automated reporting and notifications

- **Established Controls**: Specific policies and controls put in place throughout the lease lifecycle to mitigate, reduce, and manage risks – example: the Asset Request Form

- **Increased Competition**: Through RFP process, have successfully competed and awarded $41.7MM of equipment leases and lease-lines (including forklifts, automobiles, IT/servers, furniture & fixtures, broadcast/audio-visual, heavy equipment, etc.) in 4 countries

- **Generated Measurable Savings**: Generated over $2.7MM of realized savings, which is an ROI of 12.8%

- **Current Actions**:
  - RFI and RFP for Global Auto Fleet (estimated completion Q4 2011)
  - Training strategic Leasing Coordinators responsible for process in BU/Geography
  - Competitively bidding three corporate aircraft (estimated completion Q2 2012)
Best Practices for Lessees
Why Lessees Lease?

Source: Global Insight survey for ELFA 2006

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Common Lessee Problems

Limited corporate control and visibility

Excessive costs

- processes and procedures are incomplete, inefficient, and inconsistent
- insufficient understanding by “owners” of financial consequences of alternatives
- inability to measure performance of participants in the leasing workflow
- employee and executive turnover
- procedures and controls are not adhered to or enforced – not Sox compliant
- missed decisions and poor execution at end-of-term
- payment overlap for refresh, month-to-month rentals, and forced buyouts for certain categories

Insufficient human resources and automation required to manage processes effectively

- many systems (Purchasing, Asset Management, GLs, Excel Spreadsheets)
- many documents, assets, and asset details
- many departments, business units, cost centers
- many stakeholders with many manual, disjointed workflows
- collaboration and communications involve lots of friction and errors
- leasing experts spend time managing crises, not processes

Missing critical data from existing systems

- incomplete, inaccurate portfolio, 10K and management reporting, and audit trail
- systems are not integrated – too many keystrokes
1. Program Goals (written-down for clarity)

- Vision
- Mission
- Goals & rationale
- Success metrics

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- Policy
- Processes & controls
- Stakeholders

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- Software
- Data & documents
- Daily execution of lease lifecycle
- End-user support

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Executive Sponsor

Project Manager(s)

Project Team

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Example

Vision: My company minimizes total cost of leasing and continuously improve the leasing experience for all stakeholders because we manage the lease lifecycle proficiently

Mission: To organize the talent, processes, controls, and automation required to realize the Vision

Strategy: Automate, monitor, measure, enable, control, and enforce the leasing process by engaging new outsourcing partner and deploying new software services

Goals:
- Reporting trusted – accurate, up-to-date data, and automated
- Best economic decision made for all assets (lease vs. buy) prior to any new term
- NO evergreen rent, double payments, or fees paid
- Streamlined, integrated leasing process established worldwide
  - Notifications to all stakeholders
  - Escalation to ensure visibility and timeliness and enforce controls
  - Asset-level reporting to facilitate portfolio management, budgeting, and procurement
  - Experts dedicated to attending to data, details, and process across the lease lifecycle
- The financial performance of our lease portfolio is measurable and continuously improving
2. Establish Lease & Asset Database
(Assumes you don’t trust the data you have -- starting from scratch)

• Create reports to analyze all leases, assets, expenses and obligations in your portfolio
  – Collect: leasing reports – e.g. controller’s reports used for financial statements (contractual obligations & lease footnote)
  – Identify sources of electronic data, including lessors, vendors, IT department
• Distill the data elements in these reports into a master database
• Collect all original internal documents: PR, PO, CofA, MLA, schedules, addenda
  – Abstract data from documents
  – Reconcile asset data from lessors, vendors, IT department, and lease schedule data
  – Reconcile lease terms with internal reports used to prepare financial disclosures
  – Establish procedures for electronic storage of all documents (e.g. centralized repository)
• Determine Asset Owner (internal fiduciary) for each schedule
  – Scrape governance info from PR, especially who submitted order (or their current replacement)
• Send report of all schedules and assets to each Asset Owner and ask them to edit or attest to the accuracy of data, including: equipment location, EOT status, other business coding (GL codes, cost center info, project code, etc.)
• Generate report for all asset classes based on their EOT status: return, buyout, renew
• Generate “evergreen report” to determine status of leases that are past their original start date, which includes all renewals (intentional) and automatic renewals (unintentional)
3. Improve Lease Planning

- **Automate Lease vs. Buy Process**
  - *Define repeatable procedures for Lease vs. Buy that will work globally*
  - *Simplify & standardize inputs (e.g. debt, equity, tax rates) for users*
  - *Automatically generate economic analysis: If PV of total lease payments is less than original cost – leasing is still economically advantageous to company*
  - *Automatically generate accounting analysis: cash flows and impacts on income statement and balance sheet*

- **Determine generic Request for Proposal requirements and include with results sent back to user with LvB analysis**
  - *Ensure that lessors and vendors provide asset level data you require for your master database requirements*
  - *Use lease-lines: aggregate the buy and drive down the spend to create savings*
4. Capture Transaction Data

- Formalize and document procedures above for capturing and storing documents and data at the time of a transaction -- Identify risks and controls to meet SOX requirements
- Automate procedures using standardized calculations and rules (automate workflow)
- Integrate with internal and external upstream and downstream systems to minimize keystrokes and human interaction
- Automate ingestion and reconciliation of standard lessor data

5. Test Data & Capture Changes During Term

- Send routine (e.g. every 6 months, annually) automated email requests sent to Asset Owner with report that includes asset data, location, and coding and require edits and attestation of accuracy
- This will ensure you can apply costs to appropriate internal cost center/GL code during the term and know the location of asset for effective EOT management
6. Manage EOT effectively

- Send automated notifications to Asset Owners with request for EOT decision well in advance of end of term
  - Pay attention to date required to notify lessors and back up from there
  - Include asset level data and economic analysis of EOT options in a spreadsheet to minimize questions
  - Require decision and commitment for return of equipment

- Send automated notification on date committed for return and require Asset Owner to submit actual return date

- Escalate to superior and request intervention, if no response by deadline

- Create Asset Owner scorecard, which measures performance of each Asset Owner, and distribute to Asset Owner and superiors
  - Review line of business, departmental, or country scorecards (whatever is relevant) with appropriate executive
7. Rollout Program Globally

• Develop launch strategy that works for your company and culture (by business unit or country, etc)
  – Take into account degree of centralization/decentralization
    • Seek to enable decentralized work and decision-making with centralized controls and reporting

• Test launch with early adopters – knock out kinks (e.g. 6 sigma approach for repeatability and scalability)

• Train users (or train the trainers, as appropriate for your company culture) on new process, procedures, and tools
  – May want to empower regional or country process leaders

• Communicate, communicate, communicate to achieve universal adoption

• Listen, listen, listen to feedback and suggestions from users to improve process incrementally to improve ease-of-use
Conclusion

• Complete the 7 steps above to meet the Objective

• Budget the time and resources required to perform the work
  – Internal resources vs. Outsourcing
  – Homegrown vs. Third-party (e.g. SaaS approach)
    • build vs. buy analysis
  – One year minimum for implementation
    • More time may be required for international program
    • Launch project in 2012 to meet Objective by FAS Lease Accounting Standards change deadline (whitepaper: www.lesseeadvocate.com)
  – Build business case to secure internal budget

• Determine your software and staffing strategy: Manage Implementation
  – Manage in phases if necessary

• Incorporate feedback and lessons-learned incrementally to continuously improve financial performance of portfolio

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Thank you!

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Appendix

What a Finance Executive Must Do to Satisfy Auditors, Shareholders, and Internal Stakeholders – 20 Best Practices for Your Leasing Operations

Third Edition
October 2009

www.lesseeadvocate.com
<table>
<thead>
<tr>
<th>Treasury</th>
<th>Procurement</th>
<th>Asset Management</th>
<th>Accounting</th>
<th>General</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Inability to achieve or demonstrate effective competition for lease pricing</td>
<td>7. Operational difficulties in dealing with many different processes and documentation requirements for different Lessor and Resellers. (Difficulties in standardizing processes)</td>
<td>12. Difficulties ensuring compliance with terms of Master Lease Agreement (exp: notification when movement of assets, end-of-term intentions)</td>
<td>16. Difficulties in accounting for lease transactions (understanding of appropriate accounting treatment and entries to be recorded)</td>
<td>23. Compliance with Sarbox requirements for documented policies and procedures relating to the lifecycle of the lease transaction</td>
</tr>
<tr>
<td>2. Inadequate resources and expertise to review lease documentation</td>
<td>8. Inability to track status of deals before they are booked, or understand where bottleneck exists. This can be milestones or specific tasks that are outstanding</td>
<td>13. Inability to change asset characteristics mid-term (location, cost center, business unit)</td>
<td>17. Difficulties in allocating monthly rentals to the appropriate cost center or business units</td>
<td>24. Difficulties managing evergreen leases. (Going month-to-month when buyout or return is preferable)</td>
</tr>
<tr>
<td>3. Inadequate expertise to effectively negotiate lease terms and conditions</td>
<td>9. Operational difficulties in capturing the critical data elements into Lessee’s systems for accurate compliance, accounting and reporting, and reconciliation back into executed documentation</td>
<td>14. Inadequate asset tracking to allow for Lessee to return assets and end-of-term</td>
<td>18. Difficulties reconciling monthly rental invoices to PO’s and lease schedules</td>
<td>25. Difficulty handling early buyouts and reconciling resulting revised monthly rental of remaining leased assets</td>
</tr>
<tr>
<td>4. Lack of knowledge about, or lack of relationships with finance sources and their appetites for technology financing and service capabilities</td>
<td>10. Problems creating an internal PO for lease transactions, and paying down PO in full over lease life with no overage or underage</td>
<td>15. Problems associated with physical storage of executed documents and ability to retrieve related electronic versions</td>
<td>19. Inability to demonstrate to Auditors that reporting is complete and accurate and tied back to readily available executed documentation</td>
<td>26. Difficulty handling upgrades and coterminous leases</td>
</tr>
<tr>
<td>5. Inability to demonstrate the benefits of leasing over buying (Lease versus Buy analysis not performed, or inadequate), and opex benefit unknown</td>
<td>11. Inability to handle changes to lease amounts financed, or versioning of documents midstream through procurement</td>
<td>20. Inefficient and time-consuming processes to enable minimum lease payment note disclosure</td>
<td>21. Inadequate knowledge and resources to account for capital leases, and/or reclassify operating leases to capital leases</td>
<td>27. Communication problems across divisional lines and lack of clear delineation of responsibilities</td>
</tr>
<tr>
<td>6. Inadequate knowledge of residual pricing and remarketing reputation and capabilities of lessors</td>
<td></td>
<td>22. Concerned about how to transition on time to the new FASB lease accounting standard</td>
<td></td>
<td>28. Lack of understanding of the accounting and operations objectives for the equipment being leased resulting in challenges structuring the lease</td>
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<td></td>
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<td>29. Errors made by Lessors going undetected by Lessee</td>
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<td>30. Scalability</td>
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Compliance Requirements

- Master Lease Agreements (MLA)
- **UCC 1-201(37): Security Interest, 2A: Leases, 9: Secured Transactions; Sales of Accounts and Chattel Paper**
- IRS Guidelines: Revenue Procedure 2001-2811
- Tax: Sales, Property, Corporate
- Accounting: FAS 13, CICA Section 3065, IAS 17
- SOX: Sections 302, 401, 404, 801, 802, 803, and 906
  - COSO ERM
- Asset Disposal
  - Environmental Laws and Disclosure Rules
  - Data Protection and Privacy Laws and Data Erasure Standard
- SEC
- The Issue of Materiality
20 Best Practices for Lessees

Control and Automation
1. Clarify, document, and communicate strategy, processes, and policies.
2. Identify the key processes of your leasing operations.
3. Identify risks and controls in your leasing operations.
4. Simplify processes and automate to test compliance and improve efficiency.

Visibility and Transparency
6. Connect owners within your organizational structure with controls and reporting.
7. Capture your historical portfolio.
8. Capture complete audit trail.
9. Build customized dashboards for all stakeholders.
20 Best Practices for Lessees

Lifecycle Accountability
10. Engage competent, experienced experts to manage leasing operations.
11. Ensure leasing workflow is designed with role-based security and reporting.

Optimal Financial Performance
12. Lessor model designed for business strategy.
13. Lessor selection and performance management driven by strategy and value.
15. Manage a professional competitive process to get the best results.
16. Manage the end from the beginning.
17. Understand and evaluate lessor performance.
19. Manage the end-of-term and end-of-life rigorously.
20. Explicitly pursue shared services for savings and effectiveness.