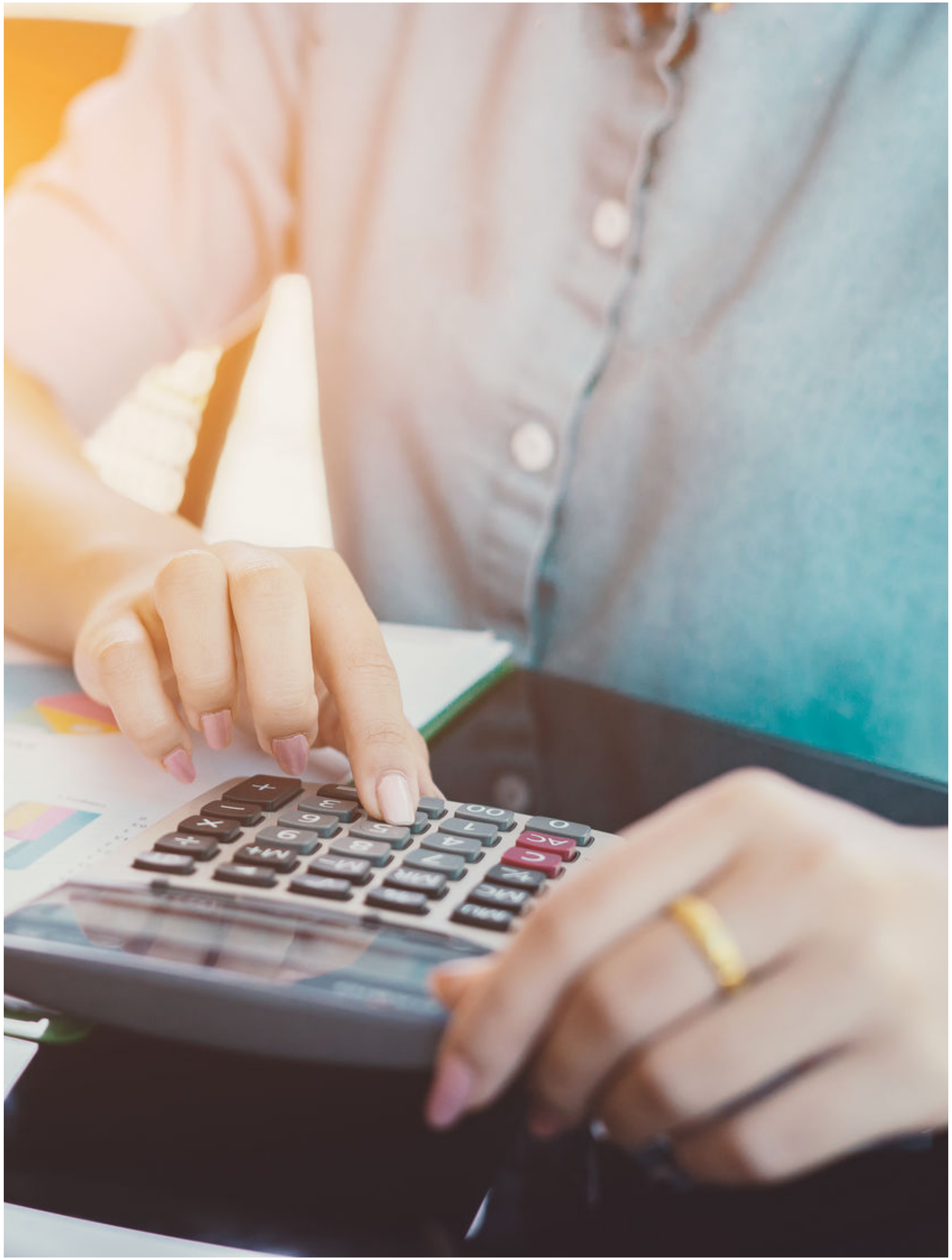

Volvo Trucks. Driving Progress

Managing financial risk when buying a new truck

How you finance your truck has a huge impact on how much risk your business takes on. Understanding your own operations and the choices available to you is key in not just minimizing risk but also ensuring that your business runs smoothly. Here are some of the most important things you should keep in mind:

- **Full leasing or not?** An operational lease can cover everything including the cost of the truck, the insurance, maintenance, tyres, and all taxes related to the truck in one monthly invoice. In effect the only things excluded in this kind of solution is the cost of fuel and the driver. Taking a simple loan to buy a truck will always be a bit less expensive, but a full-service solution lets owners focus growing their business, while leaving everything else to the truck supplier. We see this kind of asset-based financial products, including financial and operational leasing models, become increasingly popular. With a full leasing solution you can also have some peace of mind when it comes to re-selling the truck as many lease agreements come with an option to return the vehicle.

- **Is off-balance important for you?** Whether to keep your truck loan on or off your balance sheet will depend on the specific needs of your business. By keeping the vehicle off the balance sheet, for example through operational leasing, you can strengthen your cash-flow position, which gives more flexibility and the ability to take loans to grow other parts of your business.

- **Which financing provider is right for you?** A bank, an individual lender or a captive financing company like Volvo Financial Services are the providers you can explore when shopping around for a suitable financing option. There are distinct advantages for choosing a captive financing including speed and the possibility to tailor the financing to your business needs. A captive financing provider with a lot of experience can also offer insights to ensure that you are growing at a steady pace, and that you avoid common pitfalls such as overleveraging your business by growing too fast, or missing out on opportunities by being smaller than you need to be. They will also be more flexible when it comes to restructuring your loan if and when your business hits a rough patch.

When choosing a financing option remember that it doesn't have to be an either or decision. You can diversify your credit lines by for instance using a captive financing company for equipment but turning to a bank to finance your facilities. This will help mitigate risks and may improve your credit score.

What does your business need?

Understanding the current and future needs of your business is the ultimate factor in ensuring that you get the right piece of equipment and financing. Finding the answers to the below questions is usually a good start to determining a solution that meets your business goals:

- What is my budget for acquiring new truck(s) and is that in line with my earnings? Choosing the wrong truck or one that is too expensive will not only hurt your operational efficiency but also the return you get on your investment.
- What are your variable costs? Fuel, maintenance, tolls and lodging for drivers—these are just a few of the additional costs you should take into account when deciding how much to invest in a new piece of equipment. You should also think about how you will pay for these variable costs.
- What is your current financial situation? Is your business making a profit and how is your liquidity? Understanding your cash position is key in choosing something that is right and affordable for your business?
- What are your future plans? What does your current pool of customers look like? Do you have enough long-term contracts to cover the duration of your lease agreement or loan? What are your plans to expand your business in the near and long term?
- How is the economy doing? Trucking is often looked at as a leading indicator of where the rest of the economy is headed. If companies are producing less and people are buying less, there's less of a need to move goods. Some indicators of a general slowdown can include an oversupply of new trucks, weak demand from shippers, and declining spot rates for freight.
- Are there any larger trends that could impact your business? Does the area where you operate suffer from a shortage of skilled drivers? Are there any recent changes to legislation, like the tachograph legislation in Europe effective as of June that could impact the hours you can drive?
- Are there any tax implications for purchasing or leasing your truck?

It's important to note that these are just a few of the areas to look into when considering how to finance a piece of equipment. There are numerous other parameters, mostly based on the nature of your business, which will determine which solution is best.

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