

Future trends for Leasing, Factoring and Renting.

ALF Study 2024

The Portuguese Association of Leasing, Factoring and Renting (ALF) was founded 40 years ago and brings together several sectors of specialized financing, namely Leasing, Factoring and Renting. Its mission is to defend and represent the legitimate common interests of its members, namely before any public or private entities, national or foreign, contributing to the technical, economic and social development of the sectors. Within these attributions, it has been focusing not only on the components of training and financial literacy, but also on contributing to the reflection and development of the future of the sectors, which is where the preparation of this study by Deloitte is included, aiming precisely to prepare a promising future for the development and support of the Portuguese economy.

EXECUTIVE SUMMARY

Specialized financing provides vital support to the productive agents of the economy through access to goods and capital, translated into an offer of Leasing, Factoring and Renting solutions adapted to the specific needs of both companies and individuals and presenting themselves as alternative instruments to more traditional bank financing solutions.

These sectors not only facilitate access to financial resources in treasury management and the feasibility of investment initiatives, but also play a decisive role in promoting the competitiveness, sustainability and innovation of Portuguese companies, positioning themselves as a catalyst for a sustained economic development of the business fabric and contributing significantly to the expansion of business and the dynamization of production and consumption markets.

This study focuses on a reflection on the main forces that are transforming the market, seeking to identify new opportunities and challenges facing the Leasing, Factoring and Renting sectors, based on the current macroeconomic context and the evolution of the business in recent years. It also incorporates a detailed analysis of the main *drivers* of the rapidly developing digital transformation cycle, the intensification of mobility policies, sustainability and energy transition. In this context, it seeks to explore potential innovative solutions that can foster the growth of each of the sectors, referencing illustrative use cases of success to contribute to the process of reflection in the Portuguese market.

In the course of this Study, the themes summarized below are presented in greater detail.

Macroeconomic context and the outlook for the Portuguese economy

The macroeconomic scenario has been characterized by a gradual recovery after the pandemic crisis, despite facing significant recent challenges, such as new geopolitical tensions, fluctuations in commodity prices and the impacts resulting from tighter monetary policies that have been recommended by the main central banks and that condition access to financing solutions and global economic growth.

The dynamics of the Leasing, Factoring and Renting sectors, although differentiated, are deeply influenced by the global, regional and local macroeconomic context. The global situation, marked by the continuation of the

war in Ukraine, the recent conflict in the Middle East and the geopolitical tension between the United States and China, has generated a high degree of uncertainty.

Despite modest growth, the years 2023 and 2024 have been years of consolidation of "more natural" economic growth, with less volatility in key economic indicators, with energy costs stabilizing, supply chains gradually being re-established and tighter monetary policies beginning to translate into inflation rates closer to the objectives of the main central banks, allowing conditions for a sustained reduction in interest rates in the main world economies and more robust economic growth.

For 2024, the International Monetary Fund estimates a growth in the world Gross Domestic Product (GDP) of 3.2%, in line with OECD estimates (3.1%). The World Bank, less optimistic, projects growth of 2.4%. The European Commission forecasts growth of 0.8% for the Eurozone in 2024.

In the Portuguese context, GDP has shown moderate growth, albeit above that seen by the main European economies, reflecting a post-pandemic recovery and a resilience of key sectors such as tourism and exports. Household consumption has been increasing, driven by improvements in the labor market and the implementation of economic stimulus policies.

Portugal began to recover gradually, with GDP growing by 5.5% in 2021 and 6.8% in 2022, accumulating growth of 13% after the sharp contraction recorded in 2020. In 2023, the Gross Domestic Product grew by 2.3%, with the Bank of Portugal estimating, in March 2024, growth forecasts of 2.0% for 2024 and 2.3% for 2025. However, more recently, the Bank of Portugal revised its forecasts downwards, now pointing to more modest growth of only 1.6% in 2024 and 2.1% in 2025.

Gross Fixed Capital Formation has shown positive signs in Portugal, reflecting investors' confidence in the economic recovery. While inflation still persists, locally and globally, driven by energy and food costs, controlled inflation of around 2% is expected to allow for a more significant cycle of interest rate reductions, which could foster greater investment and consumption dynamics and a more favorable financing environment. The Recovery and Resilience Program (RRP) and the ongoing Portugal 2030 programs are expected to boost sectors such as health, housing, education, technology, energy, agriculture, industry and public administration.

Impact on the economy and the evolution of specialized finance

The current panorama presents, simultaneously, opportunities and challenges for specialized financing in Portugal. The expectation that interest rates will not return to the levels seen in recent decades may restrict access to traditional credit, making specialized financing solutions more attractive for companies looking to maintain liquidity and balance cash flow, by obtaining financial resources adapted to the needs of the business through Leasing, Factoring and Renting solutions. In the private segment, the expected growth in household consumption may also boost the demand for financing solutions that differentiate from traditional credit.

In addition, programmes such as the RRP and Portugal 2030, among other ongoing programmes, encourage new forms of financing and the granting of tax benefits to companies and investors with the aim of creating a more favorable economic environment for investment and innovation, where specialized financing can play a crucial role.

In summary, the global macroeconomic context and the outlook of the Portuguese economy will continue to significantly shape the evolution and growth of specialized financing. The current conditions, although challenging, present clear opportunities for specialized financing to increasingly assert itself as an essential engine for innovation, sustainability and the development of the national economy.

Specialized financing in Portugal has been showing signs of recovery, which was visible in the results achieved by the sectors in 2023.

The Leasing sector showed a growth in total production volume of around 9%, corresponding to €200 million more compared to 2022, translating into an annual growth of 21% in Furniture Leasing and a reduction of 15% in Real Estate Leasing. However, despite the annual growth of Leasing in 2023, this sector has been showing some signs of slowing down, when compared to the production levels seen in the pre-pandemic years, 2018 and 2019.

The Leasing sector in Portugal has a penetration rate of around 11% over the national Gross Fixed Capital Formation. Compared to other European markets, it is in the countries of central and northern Europe where the highest penetration rates are found, above 17%.

The Renting sector, heavily dependent on the evolution of the automotive sector, was responsible for acquiring more than 36 thousand new light vehicles, which represented an aggregate growth of 37%, equivalent to almost 10 thousand more units of new passenger and light commercial vehicles, compared to 2022.

At the European level, the Netherlands and Belgium have the highest Renting penetration rates, with 48% and 44% respectively, translating into the ratio between the number of vehicles purchased in Renting and the total number of new vehicles registered. In this indicator, Portugal registers a penetration rate of only 16%, below Spain (27%) and Italy (24%).

The Factoring sector showed a growth in total production volume of €2.1 billion compared to 2022, corresponding to a growth rate of 5%. Confirming activity stands out with an increase of 7.4% in 2023, currently representing 45% of total Factoring. International Factoring, which currently has a weight of only 13% in total Factoring, showed a growth of 5.6%, driven by the results of Import Factoring, which rose 51%. Domestic Factoring recorded a more moderate growth of approximately 2.2% compared to 2022, although still with a significant weight in the total of Factoring, of around 42%.

When comparing the penetration rate of the Factoring business in Portugal with other European markets, we find that Factoring and Confirming ensure 17% of the national GDP, only being higher in Belgium (23%) and Spain (19%). Countries such as the Netherlands, France, Italy and the United Kingdom have lower penetration rates, with Germany standing out with a ratio of around only 9%.

In this way and in general terms, it is concluded that the Leasing, Factoring and Renting sectors in Portugal have been demonstrating resilience and dynamism, contributing significantly to the growth of the national economy and reaffirming their fundamental role in financing the economy. The expressive results, especially in Factoring and Renting, show the ability of these financial instruments to adapt to a challenging economic scenario.

Challenges and Opportunities

The ongoing technological transformation and innovation, the evolution of the customer profile (due to digitalization), the energy transition, the future of mobility and the changes that are required in the regulatory framework, among other topics, will shape the future of financial services, with the specialized financing sectors being an integral part.

Portuguese business landscape

The Portuguese business landscape has revealed a dynamic scenario, embodied in the growth in the number of companies, especially SMEs and in the positive evolution of a lower degree of indebtedness (compared to GDP) that reflects the resilience and adaptability of Portuguese companies to a challenging and sometimes even adverse economic context. Between 2020 and 2022, there was a growth in the number of small and medium-sized enterprises of 6% and 8%, respectively, with a survival rate of up to five years, above 66%. The Portuguese business landscape shows great heterogeneity in terms of sectors and size of companies, although 70% of the wealth produced in the country is represented by SMEs. In recent years, the energy transition, Europe's re-industrialization effort and the growing importance of strategic autonomy in key sectors (such as energy, for example) are redefining the investment of the business landscape.

Customer preferences and the digital transition

Growing digitalization, with a focus on digital channels and the importance of sustainability are transforming customer preferences and profiles, requiring companies to invest in innovation and the creation of increasingly intuitive and personalized digital solutions, with a customer-centric and data-driven approach. The most recent data indicates that 22% of the RRP was allocated to support the development of digital skills and digital transformation of companies, and that 90% of medium and large companies currently have ongoing investments in these areas.

Future of mobility and electric vehicles

Significant growth is projected in the automotive mobility market in the United States of America and Europe by 2035, where emissions policy and the transition to electric vehicles are crucial factors for the decarbonization of the transport sector.

The European Union has advocated strict policies to reduce greenhouse gas emissions, with ambitious targets for 2030 and 2050. The European Strategy for Sustainable and Smart Mobility sets important milestones, such as the circulation of 30 million zero-emission vehicles by 2030.

For this reason, the mobility market is undergoing accelerated transformation, driven by technological innovation, the growing electrification of vehicles, innovation in hydrogen technologies, the development of autonomous driving, the popularization of new mobility services and solutions, as well as new consumer demands, with emphasis on younger age groups. These variables are causing a profound reconfiguration in the supply of financing solutions, with the creation of new market niches, the merger of segments and the decline of others, which become obsolete in the face of new market demands.

With the structural changes that are expected, in line with the goals set out in the RNC2050, the size of the automotive mobility market in the main economies, which includes suppliers of vehicles, additional services, infrastructure, financial services and end-of-life, is projected to have a compound annual growth of around 5% until 2035, with a mobility market value of approximately €141 billion expected in Europe at that date. In this context, the adaptability of companies will be crucial to seize the opportunities and overcome the challenges inherent in this new era.

Sustainability and energy transition

The transition to a sustainable economy is driven by international commitments, such as the Paris Agreement and the European Green Deal. Implementing the EU Green Deal will require major investments, with the financial sector playing a crucial role in mobilizing private investment.

Sustainable finance is a key pillar for the transition to a greener and more resilient economy. The players that develop the Leasing, Factoring and Renting sectors have a strategic role in this process, being able to drive the adoption of sustainable practices through solutions such as Green Leasing, Social Impact Investing or Greening Corporate Fleets. The growing interest in ESG and public policies that encourage the energy transition open up new business opportunities for the sector. Delivering on the European Green Deal requires the implementation of regulatory initiatives and major investments (€522 billion/year), with an estimated 70% of funding coming from the private sector.

Technological innovation and Artificial Intelligence

Artificial Intelligence (AI), especially Generative Intelligence, is revolutionizing several sectors, both business and financial. Process automation, fraud detection, knowledge management, customer service, and the personalization of offers that allow the creation of innovative solutions that meet the needs of customers and differentiate them from the competition are just a few examples of the potential of AI. However, the implementation of these technologies requires care, such as ensuring data quality and mitigating risks with the generation of false content. Regardless of the sector, companies need to integrate these technologies into their processes and operations in order to increase efficiency, improve the customer experience, reduce risks and

increase competitiveness. It is essential for companies to invest in a solid technological foundation and employee knowledge to make the most of the opportunities offered by AI.

The European Union's Artificial Intelligence Act establishes a regulatory framework to ensure the safe and ethical development and use of AI. The financial sector is one of the most impacted areas, requiring strict compliance and continuous monitoring to protect consumers and maintain the integrity of the industry.

Regulatory and legal issues

The increasing complexity of regulatory requirements requires financial institutions to adapt their operations and offerings to meet the requirements. Integrating ESG risks into financial management is crucial to driving sustainable business practices.

The financial industry is subject to a set of challenges and opportunities, driven by an ever-evolving regulatory landscape. The transition to a sustainable economy, digitalization and consumer protection concerns are shaping the regulatory agenda. The implementation of new standards, such as Taxonomy, CSRD, CRR, Late Payment Directive, GDPR or DORA, require financial institutions to invest in technology, training and processes to ensure compliance and take advantage of the opportunities offered by the market. At the same time, it is crucial that regulators strike a balance between the need to protect the financial system and the importance of fostering innovation and economic growth.

Tax issues

The modernization of the tax system is an imperative need for the progressive development of the Portuguese economy. The tax context of the products and services inherent to the Leasing, Factoring and Renting business are crucial to promote support for innovation and sustainable development projects, with emphasis on the clarification of issues such as the taxation of Real Estate Leasing, the revision of IMT in financial leaseback operations, VAT on the leasing of real estate and on electric and plug-in vehicles.

The implementation of e-invoicing and the promotion of digitalization are important steps to modernize tax administration and make it easier for companies to comply with tax obligations. Implementing additional protocols to qualify invoices as electronic is essential to ensure compliance with regulatory requirements.

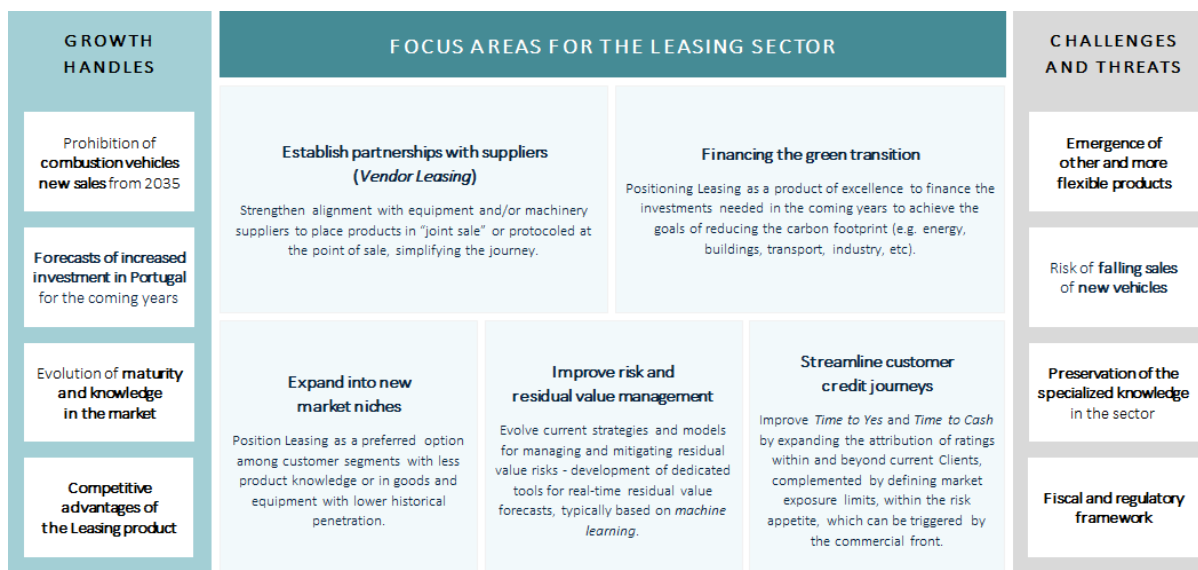
Future vision for the sectors

Leasing

In recent years, there has been a trend of increasing leasing production in Portugal, particularly in movable assets, with the most recent values converging to pre-pandemic values, although below the historical maximum values already reached previously.

The emergence of more flexible products, the management of the risk inherent in the transformation to electrification that is taking place in the automotive sector and the stagnation or drop in the volume of sales of new vehicles, the preservation of specialized knowledge within the sector and the evolution of the legal, fiscal and regulatory framework, are the main axes that guide the challenges of the Leasing sector.

The focus areas for Leasing are: strengthening partnerships with suppliers (vendor Leasing) to facilitate the joint sale of products, specialized financing in green transition projects, contributing to achieving carbon footprint reduction goals, expansion in niche markets, especially in segments with lower historical penetration (e.g. private segment), the streamlining of key customer journeys focused on improving response times and reducing manual effort in key processes, and improving decision and risk assessment models with the incorporation of new automation and intelligence technologies.

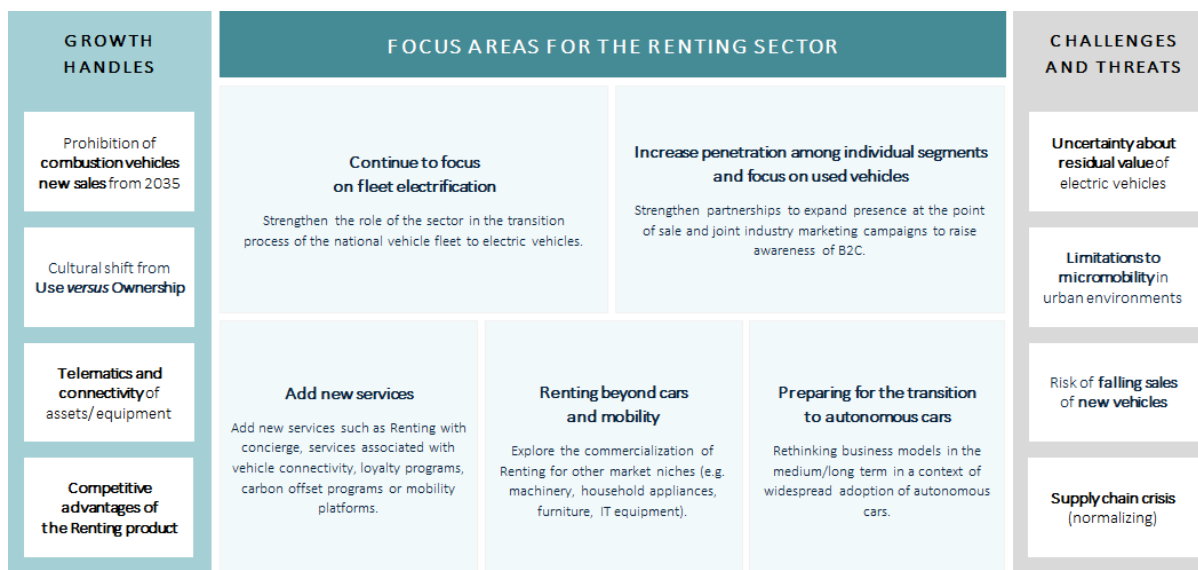


Renting

In recent years, the car renting market in Portugal has registered a remarkable growth, reflecting an increasing notoriety and penetration of the sector among the business segment, but also with private customers. Among others, the unique and intrinsic competitive advantages of the Renting product are in themselves a factor that contributes to its growth, highlighting the predictability of costs, the absence of concerns about the devaluation of the vehicle and the inclusion of services such as maintenance, insurance and roadside assistance, making Renting an attractive option for both individuals and companies. Renting could play a key role in society's transition to electric and hybrid vehicles, offering a flexible and affordable solution for acquiring more sustainable vehicles, without the long-term commitment associated with the purchase.

However, the uncertainty about the residual value of electric vehicles resulting from the expected evolution of this technology, the trend towards limitations to micro-mobility in urban areas, the risk of stagnation or drop in the volume of sales of new vehicles and the dependence on supply chains and raw materials for the production of components, are the main axes that guide the challenges of the Renting sector, highly dependent on the automotive sector.

In this context, the areas of attention for Renting include: the continuation of the focus on the electrification of fleets and the investment in the used vehicle market in the private segment, the reinforcement of the expansion of the business in other assets such as machinery, appliances, furniture and computer equipment, the aggregation of new services such as, concierge services, additional monitoring services (reports and analysis of use or consumption, preventive maintenance, sustainability reports, roadside assistance) and, finally, the preparation for an anticipated reality of autonomous cars where new fleet management systems will be required that can monitor and control autonomous vehicles in real time.



Factoring

The characterization of the Portuguese business fabric, based mostly on SMEs, enhances the relevance of Factoring solutions through the access by companies to short-term sources of financing without compromising their cash lines and the requirements required for guarantees associated with traditional financing solutions.

Factoring and Confirming also ensure the strengthening of financial resilience and boost exports, specifically through the typology of International Factoring and Confirming which, in addition to financial convenience and security, also allows a strengthening of the commercial relationship between the economic agents involved.

Although there has been a growth in the volumes of credits taken by Factoring in recent years, especially in recent years, it has been Confirming that has presented the highest growth rates, allowing the sector's penetration in the economy to be at the top level among several European countries.

The potential for the emergence of new competitors in the market due to accelerated technological evolution and the strengthening of regulation with the revision of the Directive in force 2011/7/EU regarding the reduction of payment periods in commercial transactions, are the main axes that guide the challenges of the Factoring sector.

Even so, it is considered that the growth of the Factoring activity in Portugal can be driven by the reinforcement of technological innovation in processes and in the relationship with the Customer, in the integration of ecosystems and in initiatives aimed at reducing the risk of fraud, in the evolution of decision models and in a greater diversification of the offer and expansion of the market.

GROWTH HANDLES	FOCUS AREAS FOR THE FACTORING SECTOR			CHALLENGES AND THREATS
Expectation of economic growth	Embedded Factoring Establish partnerships with ERP providers or specialized <i>fintech's</i> to integrated Factoring solutions.	Integrated ecosystem for fraud management Promote the creation of an integrated platform between Banks/Factors and public entities to mitigate the risk of fraud.	Strengthen specialization in niche sectors or segments of the economy Create specialized offers for subsectors or market niches (e.g. public sector, higher risk companies, Factoring for tax anticipation).	Fraud risk
"Democratization of Factoring" via new segments	Innovate the offer Evolve towards a new range of solutions, like what already exists in other European regions (e.g. <i>green factoring, inventory factoring</i>).	Evolving decision-making models Evolve credit decision models based on access to more information (e.g. <i>open banking</i>), expansion of rating assignment and exposure limits.	Adopt artificial intelligence Adopt artificial intelligence to automate the reading, interpretation and processing of documentation and automate decisions in key journeys, reducing manual work and accelerating time to market.	New players in the market (<i>fintech's</i>)
Diversification and specialization in the offer				Fiscal and regulatory framework
Potential for partnerships with ecosystem players				Preservation of the specialized knowledge in the sector

Final Outlook

Specialized finance has shown positive developments, even in a challenging post-pandemic economic context. These sectors have shown signs of resilience and adaptability in Portugal, contributing significantly to the growth of the economy, supporting companies and boosting the market.

In order to promote the continuous growth of the business of the sectors in Portugal, several disruptive factors that are influencing the course of the sectors must be considered. On the one hand, the growing digitalization and the relevance of topics such as sustainability and mobility, on the other, the evolution of Customers and the entry of fintech offers. These factors, combined, translate into challenges, but also create opportunities for instruments such as Leasing, Factoring and Renting to stand out compared to traditional financing.

It is imperative for market players to continue to invest in technological innovation, in more personalized and integrated solutions and in strategic partnerships in order to ensure their competitiveness and exposure of expertise through differentiation in service and offer, thus increasing their impact as a catalyst for the Portuguese economy.

Internationally, we see innovative solutions and use real cases that can serve as valuable references, allowing the implementation of strategies to expand the offer, improve the customer experience or optimize operations, contributing to the growth in the coming years of the sectors in Portuguese territory.

Certainly, the future vision for specialized financing in Portugal is optimistic, safeguarding the imperative for players in the sectors to continue the path of transformation that they have demonstrated in recent years.