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CFO JOURNAL

CFOs Uncover Surprise Savings as They Implement New Lease-Accounting Rules

As finance executives analyze thousands of lease contracts to comply with new rules, they're rewarded with potential savings

Tyson Foods said it spent about three years analyzing and digitizing its leases to get a comprehensive view of its portfolio.
PHOTO: DANIEL ACKER/BLOOMBERG NEWS

By Nina Trentmann

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Some companies are finding unexpected savings as they comply with new lease-accounting rules.

Companies listed in the U.S. and Europe this year must report lease obligations on their balance sheets to comply with the new rules, which aim to increase transparency for investors and lenders. The rules are effective for 2019 financial reports.

Complying with the standards requires companies to collect and disclose lease data on an unprecedented scale. It has resulted in the time-consuming process of chasing down lease agreements across offices, sometimes all over the world, and scouring contracts for variations in terms and compiling the information in one place.

The arduous process, however, has given finance chiefs a birds-eye view into lease spending, unveiling opportunities not before recognized.

"Now that companies have their lease information in one place, they might be able to manage these contracts more efficiently and find cost savings," said Michael Keeler, chief executive of LeaseAccelerator Inc., which sells software to help companies comply with the new standard.

Public firms have more than $3 trillion in off-balance-sheet leases, according to estimates from the International Accounting Standards Board. Some companies could cut lease expenses by 16% to 20%, Mr. Keeler said.

The process of consolidating lease information can provide chief financial officers deeper insight into the financial volume and conditions of their leases. It could offer clues as to how to use existing real estate or equipment more efficiently, uncover forgotten accords that should be scrapped and help them negotiate better terms when leases expire.

Tyson Foods Inc. spent about three years analyzing and digitizing its leases to get the comprehensive view of the portfolio required under the new rules. As a result, the Springdale, Ark., meat producer expects to reduce roughly $450 million in lease obligations it has for transportation and material handling equipment and real estate.

"The improved visibility gives us a lot better management of our overall lease portfolio," said Brian Martfeld, the company's senior director for controls and automation.

CVS Health Corp. spent about $2.5 billion on operating leases in 2017, according to a company spokesman. As it wrangled more than 10,000 lease agreements, the Woonsocket, R.I.-based health-care company found some areas it could trim.

“We are considering curtailing the leasing of certain low-dollar equipment in the future,” a company spokesman said. “Laptop and desktop computers would be two common examples.”

Some companies say that even if they find opportunities to cut costs, realizing them will take time. U.K. telecommunications giant BT Group PLC has been collecting the information on the tens of thousands of leases covering vehicles and other equipment for months, a spokeswoman said.

“The majority of our leases are long term,” she said. “So even if we thought the standard could generate savings, these are unlikely to be realized immediately.”

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