Equipment Finance Quarterly Update: 2022 Fourth Quarter

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Welcome to the quarterly update for the Equipment Finance industry. Colonnade is a leading financial advisor to the Equipment Finance industry, having advised on several M&A transactions in recent years. This report analyzes data from the fourth quarter of 2022 and highlights recent transactions.

The Equipment Finance industry covers a variety of businesses that provide lease financing solutions collateralized by equipment. Our quarterly update focuses on commercial equipment finance within the U.S.

We maintain relationships with the major industry players and provide this commentary to our readers to track relevant industry news based primarily on those public banks that report segment results for their equipment finance divisions.

OUR QUARTERLY UPDATE COVERS:

1. Market Trends
2. Financial Results From Select Public Companies
3. Recent Transactions
4. Federal Funds Rate
5. Outlook

1 MARKET TRENDS

According to the Equipment Leasing and Finance Association ("ELFA"), the equipment finance industry is $1 trillion in size. ELFA reports monthly on the economic activity of 25 companies within the industry. Colonnade tracks this data and reports on certain highlights within our quarterly reports.

ELFA: SURVEY OF EQUIPMENT FINANCE ACTIVITY HIGHLIGHTS

	DEC-22	Q/Q CHANGE	Y/Y CHANGE
NEW BUSINESS VOLUME	$12.9 billion	26.5%	9.3%
NET CHARGE-OFFS	0.26%	52.9%	4.0%
CREDIT APPROVALS	76.6%	(0.9%)	(2.5%)

NEW BUSINESS VOLUME IS UP

New business volume increased by 9.3% year-over-year. Cumulative 2022 new business volume was up 6% as compared to 2021.

CHARGE-OFFS ARE UP

Among the portfolios analyzed, overall charge-offs increased by 1 basis point year over year. Perhaps most notably, charge-offs jumped by 52.9% from Q3 2022 to Q4 2022.

CREDIT APPROVALS ARE DOWN

Credit approvals declined by 70 basis points from Q3 2022 to Q4 2022. Compared to Q4 2021, the sector saw a 200-basis point decrease in approvals, driven by the elevation of credit quality concerns in a slowing macroeconomic environment.

2 FINANCIAL RESULTS FROM SELECT PUBLIC COMPANIES

Of the largest equipment financing companies, only a select few public companies report their outstanding leases independent of their commercial financing divisions. We track quarterly data for these companies to highlight market trends.

COMPANY	OUTSTANDINGS[1]	Q/Q CHANGE	Y/Y CHANGE
PNC	$6,514.0	5.2%	6.3%
customers bank	$354.7	6.1%	33.7%
Peoples BANK	$345.1	10.3%	181.7%
BankUnited	$286.1	(7.7%)	(20.0%)
PACIFIC WESTERN BANK	$278.1	36.6%	35.8%
WINTRUST	$253.9	3.7%	4.9%
pathward	$189.9	(9.9%)	(22.6%)
AGGREGATE REPORTED	**$8,221.9**	**5.3%**	**8.6%**

[1]$ in millions

COMMENTARY

This group reported a 5.3% quarterly increase in outstandings on an aggregate basis with a year-over-year change of 8.6%.

"In one of the stronger December and Q4 end-of-year showings, new business volume in the association's monthly index is another example of businesses across the United States relying on equipment financing to enable their operations to grow and expand. This performance is especially impressive given the steady increase in short-term interest rates brought on by the Fed's determination to bring down inflation and stabilize labor markets."

-Ralph Petta, President and CEO, ELFA

ELFA
EQUIPMENT LEASING AND FINANCE ASSOCIATION

"...credit performance for the fourth quarter was very solid from a number of perspectives...Commercial loans bolstered by a strong quarter and leasing grew by $290 million."

-Richard Murphy, Vice Chairman and CLO, WinTrust

WINTRUST

The industry has recognized elevated levels of net charge-offs in the fourth quarter, but it is yet to be seen if this is the beginning of a broad industry-wide trend, an end market-specific issue, or just a temporary blip. PNC commented on the phenomenon and noted that the increase was largely attributable to a single borrower during the Company's Q4 2022 earnings call:

PNC

"Net charge-offs for loans and leases were $224 million, an increase of $105 million linked quarter, driven in part by one large commercial loan credit."

-Rob Reilly, EVP and CFO, PNC

3 RECENT TRANSACTIONS

M&A DEALS

M&A activity continued at a rapid pace in 2022. Banks are actively seeking equipment leasing & finance platforms, as evidenced by Civista Bancshares' and Gulf Coast Bank & Trust's 2022 acquisitions of independent industry operators.

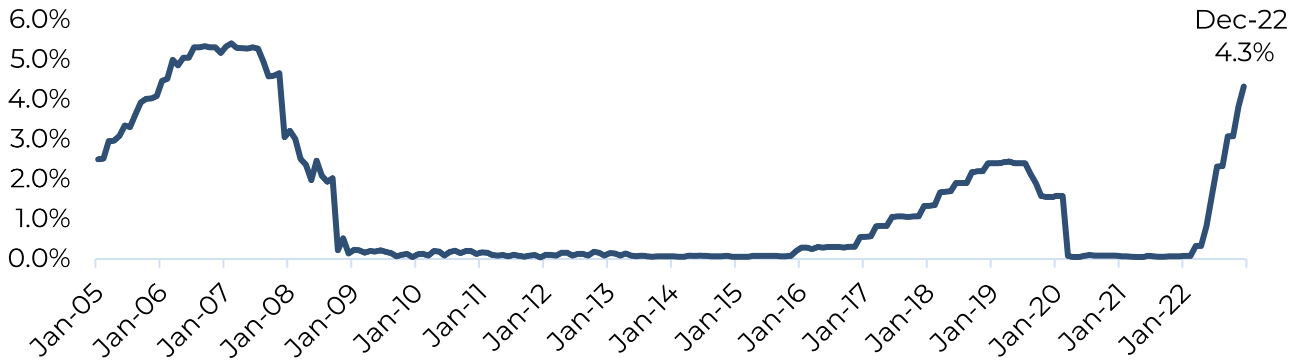
	TARGET	BUYER
December 2022	NORFUND CAPITAL *(Toronto-based)*	FIRST FINANCIAL EQUIPMENT LEASING
October 2022	VISION FINANCIAL GROUP[b]	CIVISTA BANCSHARES*
August 2022	KLC FINANCIAL[b]	GULF COAST BANK & TRUST*
June 2022	LIBERTY COMMERCIAL FINANCE	WINGSPIRE CAPITAL HOLDINGS
June 2022	NEXSEER CAPITAL	NEXSEER CAPITAL *(Management Buyout)*
May 2022	WHEATEN FINANCIAL	TIMEPAYMENT
April 2022	RABERN RENTALS	MANITEX INTERNATIONAL
March 2022	CLOVERDALE EQUIPMENT COMPANY	HERC RENTALS
March 2022	VANTAGE FINANCIAL	PEOPLES BANCORP INC.*
January 2022	DIVERSIFIED CAPITAL CREDIT	TIMEPAYMENT
January 2022	RIFCO INC.	CHESSWOOD GROUP LIMITED
January 2022	ACG EQUIPMENT FINANCE	AMERICAN BANK*
January 2022	ENCINA EQUIPMENT FINANCE	FRANKLIN BSP LENDING AND FRANKLIN BSP CAPITAL
January 2022	EASTERN CRANE AND HOIST	AMERICAN EQUIPMENT HOLDINGS *(Rotunda Capital Partners)*

[b]Colonnade buyside engagement that did not transact

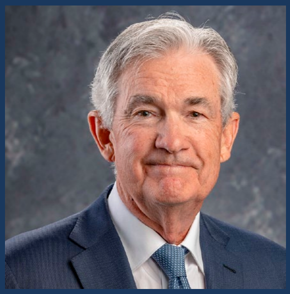
*Bank acquisitions

4 FEDERAL FUNDS RATE

In 2022, the Fed raised the Federal Funds Rate by 425 basis points through seven consecutive rate hikes. In June, July, September, and November of 2022, the Federal Funds Rate was increased by 75 basis points, constituting four of the largest hikes since 1994. The median Federal Funds Rate projected by U.S. central bankers in their most recent economic release is 5.1% for 2023.



Source: St. Louis Fed



Jerome Powell
Federal Reserve Chairman

March 8th 2023
Semiannual Monetary Policy Report to the Congress

"We continue to anticipate that ongoing increases in the target range for the federal funds rate will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time…."

"…the ultimate level of interest rates is likely to be higher than previously anticipated. If the totality of the data were to indicate that faster tightening is warranted, we would be prepared to increase the pace of rate hikes. Restoring price stability will likely require that we maintain a restrictive stance of monetary policy for some time."

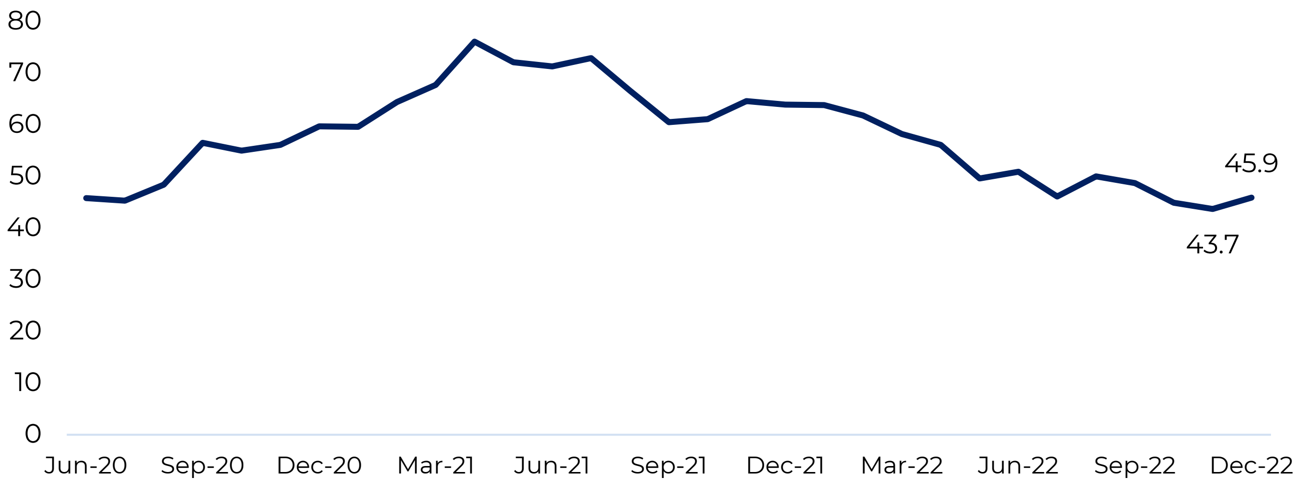
Despite inflationary and interest rate-related pressures, the equipment financing industry remains optimistic as new business volume increased by a healthy 26.5% from Q3 2022 to Q4 2022.

5 OUTLOOK

Despite rising interest rates and continued economic volatility, new business volume in the fourth quarter held strong, up 9.3% year-over-year. Industry leaders across banks and independent financing institutions are impressed with the resilient growth exhibited by the equipment finance sector. Inflationary pressures and concerns about the Federal reserve's monetary policy stance remain material industry headwinds into the new year.

The Equipment Leasing & Finance Foundation measures confidence among industry leaders every month. Following a continued decline in 2022, sector confidence among industry leaders bottomed out in November at 43.7. Shortly thereafter, sentiment amongst industry operators improved, as evidenced by the index value of 45.9 in December of 2022. This represents a 5% increase relative to November lows, despite the Fed's 50 basis point Fed rate hike in December of 2022.

ELFA MONTHLY CONFIDENCE INDEX



CONCLUSION

In recent years, Colonnade has served as the sell-side or buy-side M&A Advisor in a multitude of important equipment finance transactions. These complex transactions require an investment banking team with a wealth of industry knowledge, insider-level mastery, a deep understanding of competitive positioning, and a robust network of buyer relationships. If you own an equipment finance company or are a potential buyer, please contact us, we are happy to be a resource to you as you think through your next steps.

COLONNADE IS A LEADING ADVISOR TO THE FINANCIAL SERVICES INDUSTRY

Peoples Bank
Working Together. Building Success.®
has acquired
North Star Leasing Company
COLONNADE SECURITIES LLC

TFC Technology Finance Corp.
has been acquired by
Kingsbridge Holdings
COLONNADE SECURITIES LLC

North Star Leasing Company
has been acquired by
Copley | Equity | Partners
COLONNADE SECURITIES LLC

HouseMax Funding
has raised capital from
Hunt
COLONNADE SECURITIES LLC

National Partners
has been acquired by
WebBank
A Steel Partners Company
COLONNADE SECURITIES LLC

Mepco
has been acquired by
Seabury Capital Group
COLONNADE SECURITIES LLC

Premium Assignment Corporation
has been acquired by
Imperial PFS®
COLONNADE SECURITIES LLC

US PremiumFinance®
"Beyond Great Rates & Superb Service"
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This advertisement was prepared March 2023. It is not investment advice, and Colonnade undertakes no obligation to update the information contained herein.

Sources: SEC filings, Company Earnings Calls, ELFA, Equipment Leasing & Financing Foundation, St. Louis Fed, US Federal Reserve, Seeking Alpha