

Equipment Finance Quarterly Update: 2022 Third 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 Quarter Report analyzes data from the third 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 selected 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 over \$1 trillion in size. The 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 - MLFI - 25 / Survey of Equipment Finance Activity (SEFA)

	Sept 2022	% Change Q / Q	% Change Y / Y
New business volume	\$10.2 billion	(1.0%)	10.9%
Net charge offs	0.17%	13.3%	(51.4%)
Credit approvals	77.30%	(1.0%)	1.3%








New business volume is up. New business volume increased by 10.9% year-over-year. From the beginning of the year to Q3, cumulative new business volume increased by nearly 6% as compared to the same period in 2021.

Charge-offs are down. Among the portfolios analyzed, overall charge-offs decreased by 18 basis points year over year, attributable to high payment rates and strong credit qualities in portfolios.

Credit approvals are up. Throughout the third quarter of 2022, credit approvals remained consistent. Compared to 3Q2021, one year prior, the sector saw a 100-basis point increase in approvals, driven by elevated demand for fixed-rate leases and loans in a rising rate environment.

2 FINANCIAL RESULTS FROM SELECTED 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 (\$mm)	Q / Q change	Y / Y change
 PNC	\$6,192	(0.8%)	(1.0%)
 BankUnited	\$310.0	(6.9%)	(18.3%)
 Peoples BANK	\$312.9	(0.5%)	180.7%
 customers bank	\$334.2	17.2%	37.2%
 WINTRUST	\$244.8	9.4%	0.4%
 pathward	\$210.7	(3.7%)	(20.8%)
 PACIFIC WESTERN BANK	\$203.6	5.0%	5.1%
Aggregate Reported	\$7,809	(0.0%)	1.5%

Commentary

This group reported a near-zero quarterly decrease in outstandings on an aggregate basis with a year-over-year change of 1.5%.

- Ralph Petta, President and CEO of ELFA said: “Third quarter new business volume in the over-\$1 trillion equipment finance industry is exceptionally strong, providing fresh evidence that the economic contraction projected by many economists has not yet arrived. Another data point supporting this relatively benign economic scenario is extremely low delinquencies, indicating that end users of commercial equipment continue to make on-time payments to their finance providers.”
- Glen Herrick, CFO of Pathward Financial stated: “...our commercial finance loan and lease portfolio remains healthy with strong asset quality metrics...”



Industry leaders are continuing to invest in and expand their equipment financing segments, as demonstrated by Customer Bank’s CEO Sam Sidhu’s recent commentary during Customer Bancorp’s Q3 2022 earnings call:

- “We are pleased to report that we are continuing to innovate and adding to our digital SMB small-medium size business bundle offering next year, as well as rolling out an equipment financing pilot launch as we look to build off of our success and learnings in the digital 7A space...”

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' recent acquisition of independent industry operator, Vision Financial Group.

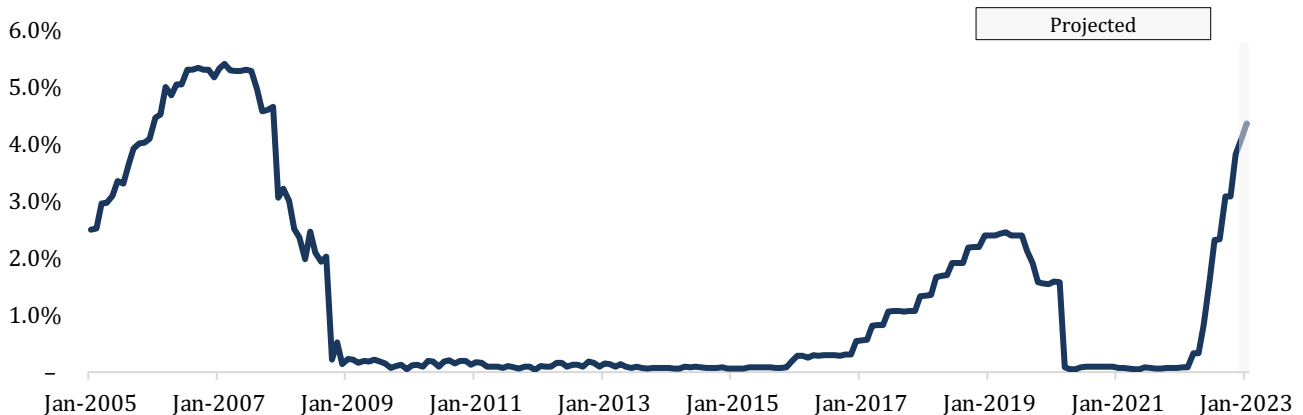
Month	Target	Buyer
Oct-22	Vision Financial Group	Civista Bancshares*
Aug-22	KLC Financial	Gulf Coast Bank & Trust*
June-22	Liberty Commercial Finance	Wingspire Capital Holdings
May-22	Wheaten Financial	TimePayment
Apr-22	Ravern Rentals	Manitex International
Mar-22	Cloverdale Equipment Company	Herc Rentals
Mar-22	Vantage Financial	Peoples Bancorp Inc.*
Jan-22	Diversified Capital Credit	TimePayment
Jan-22	Rifco Inc.	Chesswood Group Limited
Jan-22	ACG Equipment Finance	American Bank*
Jan-22	Encina Equipment Finance	Franklin BSP Lending and Franklin BSP Capital
Jan-22	Eastern Crane and Hoist	American Equipment Holdings (Rotunda Capital Partners)

*Bank acquisitions

4 FEDERAL FUND RATES

In 2022, the Fed raised the Federal Funds Rate by 375 basis points through six 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. To combat rising inflation, most U.S. central bankers project the Federal Funds rate to exceed 4.5% in 2023, implying further rate increases into the next year. Federal Reserve Chairman Jerome Powell provided an address on November 30th where he suggested that since the effects of monetary policy often lag the implementation of rate changes by several months, the Fed will soon moderate the frequency and magnitude of rate increases in an attempt to find a steady level at which to hold rates in order to instill widespread price stability. He went on to say this deceleration could occur as soon as December.

Federal Funds Rate



Source: St. Louis Fed and The Financial Forecast Center

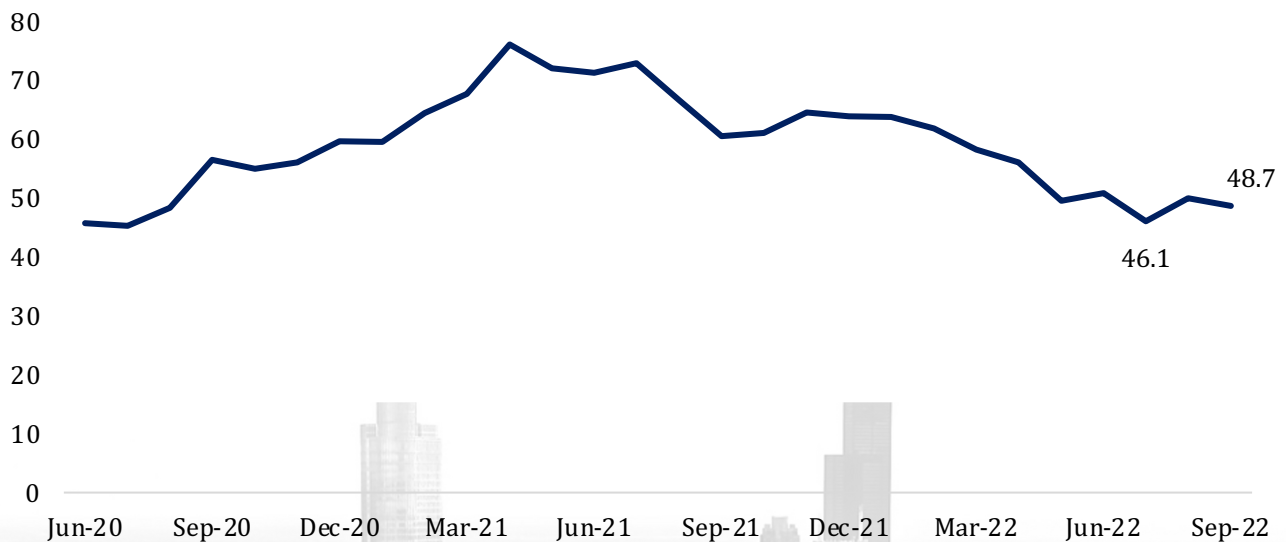
Despite inflationary and interest rate-related pressures, the equipment financing industry remains optimistic as charge-offs decline and new business increases year over year by a healthy 10.9% in September of 2022. In October, the Equipment Leasing and Finance Foundation acknowledged that while the effects of Fed rate hikes appear to be still filtering through the economy, demand in downstream verticals is expected to soften late this year and early next year as the Fed continues to battle inflation.

5 OUTLOOK

Despite rising interest rates and continued economic volatility, new business volume in the third quarter was resilient, up eleven percent year-over-year. However, leaders across banks and independent financing institutions are cautiously optimistic for the remainder of 2022 with goals to expand portfolios. Inflationary pressures and supply chain concerns remain material industry headwinds into the fourth quarter.

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 July at 46.1. The cautious optimism of industry operators is supported by the index's recent increase to 48.7 in September of 2022. This represents a 6% increase relative to 2022 lows, even with another significant 75 basis point Fed rate hike occurring in September 2022.

Monthly Confidence Index: Equipment Finance Industry (MCI-EFI)



Source: ELFA

Conclusion

In recent years, Colonnade has been 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, competitive positioning, and a robust network of buyer relationships. If you own an equipment finance company or are a potential buyer, please contact us, and we can help you think through your next steps.

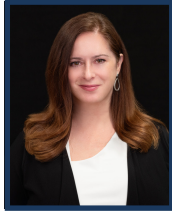
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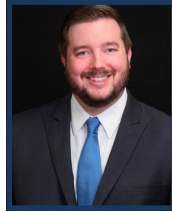
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This advertisement was prepared November 2022. It is not investment advice, and Colonnade undertakes no obligation to update the information contained herein.

Sources: Data and Market Trends: SEC filings, investor presentations, Company Earnings Calls, ELFA, Equipment Leasing & Financing Foundation, St. Louis Fed, The Financial Forecast Center, US Federal Reserve

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