



Equipment Finance Quarterly Update: 2023 First 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 2023 First Quarter 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 - MLFI - 25 / Survey of Equipment Finance Activity (SEFA)

| | Dec 2022 | % Change Q / Q | % Change Y / Y |
|---------------------|----------------|----------------|----------------|
| 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. Full-year 2022 cumulative new business volume increased by nearly 8.1% 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 3Q2022 to 4Q2022. Compared to 4Q2021, 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 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 | \$6,514.0 | 5.2% | 6.3% |
|  customers bank | \$354.7 | 6.1% | 33.7% |
|  Peoples BANK | \$345.1 | 10.3% | 181.7% |
|  BankUnited | \$286.2 | (7.7%) | (20.0%) |
|  PACIFIC WESTERN BANK | \$278.1 | 36.6% | 35.8% |
|  WINTRUST | \$253.9 | 3.7% | 4.9% |
|  pathward | \$189.8 | (9.9%) | (22.6%) |
| Aggregate Reported | \$8,221.9 | 5.3% | 8.6% |

Commentary

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

- Ralph Petta, President and CEO of ELFA said: "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."
- Richard Murphy, Vice Chairman and CLO of WinTrust stated: "...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"



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. PNC's SVP and Director of Investor Relations, Bryan Gill, explained during the Company's Q4 2022 earnings call:

- "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."

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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.

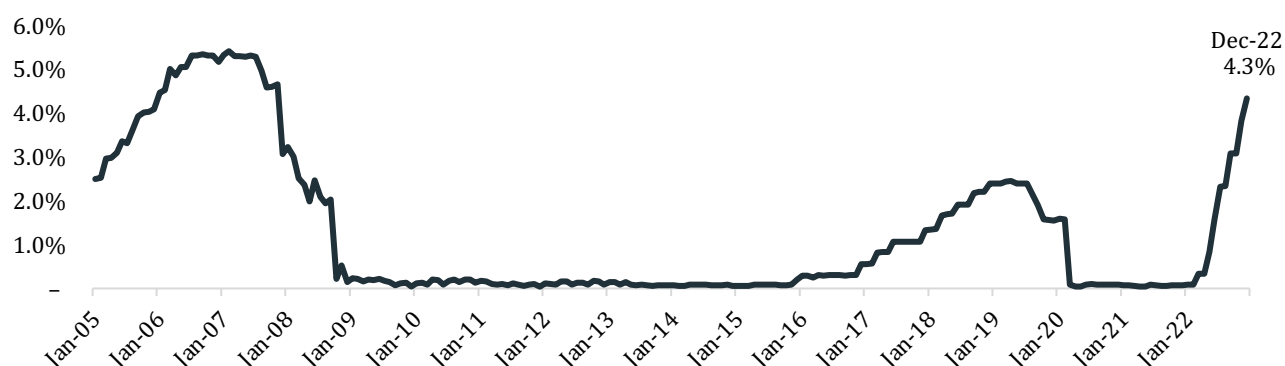
| Month | Target | Buyer |
|---------|---------------------------------|---|
| Dec-22 | NorFund Capital (Toronto-based) | First Financial Equipment Leasing |
| Oct-22 | Vision Financial Group | Civista Bancshares* |
| Aug-22 | KLC Financial | Gulf Coast Bank & Trust* |
| June-22 | Liberty Commercial Finance | Wingspire Capital Holdings |
| June-22 | Nexseer Capital | Nexseer Capital (Management Buyout) |
| 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

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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

Federal Reserve Chairman, Jerome Powell, elaborated on his monetary policy outlook in his March 8th 2023 Semiannual Monetary Policy Report to the Congress, explaining, “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.”

In the same report, Powell explained that despite the moderation of inflation in recent months, he anticipates that returning inflation to target levels will require the continuation of restrictive monetary policy. Citing the strength of recent macroeconomic data, Powell elaborated, “...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 3Q2022 to 4Q2022.

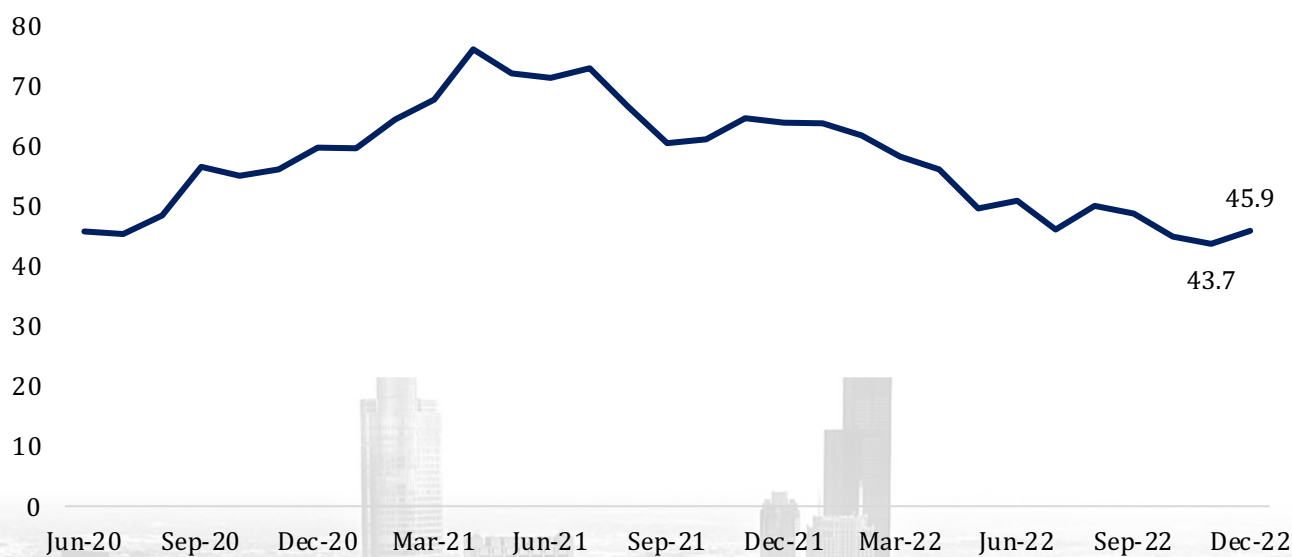
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OUTLOOK

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 October 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 October lows, despite the Fed's 50 basis point Fed rate hike in December of 2022.

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



Source: Equipment Leasing & Finance Foundation

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

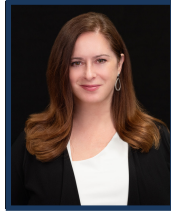
| | | | |
|---|--|---|--|
| <p>BUYSIDE</p> <p>Peoples BANK Working Together. Building Success.®</p> <p><i>acquired</i></p> <p>NORTH STAR LEASING COMPANY</p> <p><i>a portfolio company of</i></p> <p>COPLEY EQUITY PARTNERS</p> <p></p> | <p>SELLSIDE / CAPITAL RAISE</p> <p>TFC TECHNOLOGY FINANCE CORP.</p> <p><i>was sold to</i></p> <p>KINGSBRIDGE HOLDINGS</p> <p><i>a portfolio company of</i></p> <p>TZP</p> <p></p> | <p>SELLSIDE / CAPITAL RAISE</p> <p>NORTH STAR LEASING COMPANY</p> <p><i>was sold to</i></p> <p>COPLEY EQUITY PARTNERS</p> <p></p> | <p>SELLSIDE</p> <p>US PREMIUM FINANCE A DIVISION OF AMERIS BANK</p> <p><i>was sold to</i></p> <p>Ameris Bancorp.</p> <p></p> |
| <p>SELLSIDE</p> <p>NATIONAL PARTNERS</p> <p><i>was sold to</i></p> <p>WebBank</p> <p></p> | <p>SELLSIDE</p> <p>MEPCO</p> <p><i>a subsidiary of</i></p> <p>INDEPENDENT BANK</p> <p><i>was sold to</i></p> <p>SEABURY CAPITAL GROUP</p> <p></p> | <p>SELLSIDE</p> <p>PREMIUM ASSIGNMENT CORPORATION</p> <p><i>a subsidiary of</i></p> <p>SUNTRUST</p> <p><i>was sold to</i></p> <p>IMPERIAL PFS</p> <p></p> | <p>SELLSIDE</p> <p>AFS IBEX</p> <p><i>was sold to</i></p> <p>MetaBank</p> <p></p> |

For more information on the equipment finance industry, please contact:



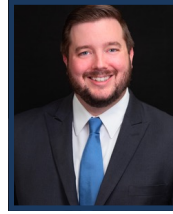
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This advertisement was prepared March 2023. It is not investment advice, and Colonnade undertakes no obligation to update the information contained herein.

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

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