

# Equipment Finance Quarterly Update: 2023 First Quarter



Mergers & Acquisitions  
Capital Raising  
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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 first quarter of 2023 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 major industry operators 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

	MAR-23	Q/Q CHANGE	Y/Y CHANGE
NEW BUSINESS VOLUME	\$10.4 Billion	(19.4%)	(1.9%)
NET CHARGE-OFFS	0.32%	23.1%	220.0%
CREDIT APPROVALS	75.30%	(1.7%)	(3.8%)

### NEW BUSINESS VOLUME IS DOWN

New business volume decreased modestly by 1.9% year-over-year, however cumulative new business volume year to date was up 4% as compared to 2022.

### CHARGE-OFFS ARE UP








Among the portfolios analyzed, overall charge-offs increased by 22 basis points year over year. Charge-offs jumped 23.1% from Q4 2022 to Q1 2023.

### CREDIT APPROVALS ARE DOWN

Credit approvals declined by 130 basis points from Q4 2022 to Q1 2023. Compared to Q1 2022, the sector saw a 300-basis point decrease in approvals.

## 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 <sup>1</sup>	Q/Q CHANGE	Y/Y CHANGE
 PNC	\$6,424.0	(1.4%)	3.3%
 customers bank	\$360.8	1.7%	34.9%
 Peoples BANK	\$354.6	2.8%	32.8%
 BankUnited	\$266.7	(6.8%)	(21.9%)
 PACIFIC WESTERN BANK	\$271.6	(2.3%)	34.2%
 WINTRUST	\$256.3	0.9%	6.5%
 pathward	\$170.6	(10.1%)	(27.5%)
<b>AGGREGATE REPORTED</b>	<b>\$8,104.7</b>	<b>(1.4%)</b>	<b>4.3%</b>

<sup>1</sup>\$ in millions

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## COMMENTARY

This group reported a 1.4% quarterly decrease in outstandings on an aggregate basis with a year-over-year growth of 4.3% as of Q1 2023.

“While originations for the month are strong—in the face of a persistently high interest rate and inflationary environment—the metrics that bear monitoring deal with portfolio quality. Delinquencies and losses are up compared to the same period last year, indicating a potential softness in the economy that is making it more difficult for lessees to honor their lease and financing obligations”

*-Ralph Petta, President and CEO,  
ELFA*



The industry has recognized elevated levels of net charge-offs in the first quarter. Pathward Financial CEO Brett Pharr spoke to the security of the underlying asset class in the company’s Q2 FY2023 earnings call, detailing the resilient nature of Pathward’s equipment finance line:



“During the underwriting process in the equipment finance line, we often receive several quotes from buyers on the equipment at origination. These quotes are part of what we base the value of the loan on. So that in the event of a default, buyers are pre-approved and prepared to transact with us...The active management of our highly collateralized loan book puts us in a strong position to recover a significant portion, if not all the value of the loan even if a customer defaults. This may cause peaks and valleys in our short-term net charge-off rates since the default may occur in one quarter and recover in another.”

*-Brett Pharr, CEO,  
Pathward Financial*

## 3 RECENT TRANSACTIONS

### M&A DEALS

Following a surge in M&A activity in 2022, deal volume slowed through the first quarter of 2023. Many commercial banks have been focused on maintaining deposits, which fell 3.5% from January 4<sup>th</sup> to March 29<sup>th</sup>, 2023.

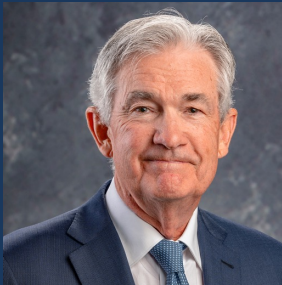
	TARGET	BUYER
December 2022	NORFUND CAPITAL <i>(Toronto-based)</i>	FIRST FINANCIAL EQUIPMENT LEASING
October 2022	VISION FINANCIAL GROUP <sup>b</sup>	CIVISTA BANCSHARES*
August 2022	KLC FINANCIAL <sup>b</sup>	GULF COAST BANK & TRUST*
June 2022	LIBERTY COMMERCIAL FINANCE	WINGSPIRE CAPITAL HOLDINGS
June 2022	NEXSEER CAPITAL	NEXSEER CAPITAL <i>(Management Buyout)</i>
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)

<sup>b</sup>Colonnade buyside engagement that did not transact

\*Bank acquisitions

## 4 FEDERAL FUNDS RATE

From mid-March 2022 through March 2023, the Fed hiked the Federal Funds Rate by 475 basis points. In his March 2023 press conference, Jerome Powell emphasized that recent events in the banking system were likely to result in tighter credit conditions for households and businesses. Powell indicated that it was too early to quantify the impact of events in the banking system on the broader economy, and as such it was too soon to determine the ideal monetary policy response. Consequentially, the Federal Reserve softened its stance on the implementation of future rate hikes to mitigate inflation.



**Jerome Powell**  
Federal Reserve Chairman

March 2023 Press  
Conference

“We believe, however, that events in the banking system over the past two weeks are likely to result in tighter credit conditions for households and businesses, which would in turn affect economic outcomes. It is too soon to determine the extent of these effects and therefore too soon to tell how monetary policy should respond. As a result, we no longer state that we anticipate that ongoing rate increases will be appropriate to quell inflation; instead, we now anticipate that some additional policy firming may be appropriate. We will closely monitor incoming data and carefully assess the actual and expected effects of tighter credit conditions on economic activity, the labor market, and inflation, and our policy decisions will reflect that assessment.

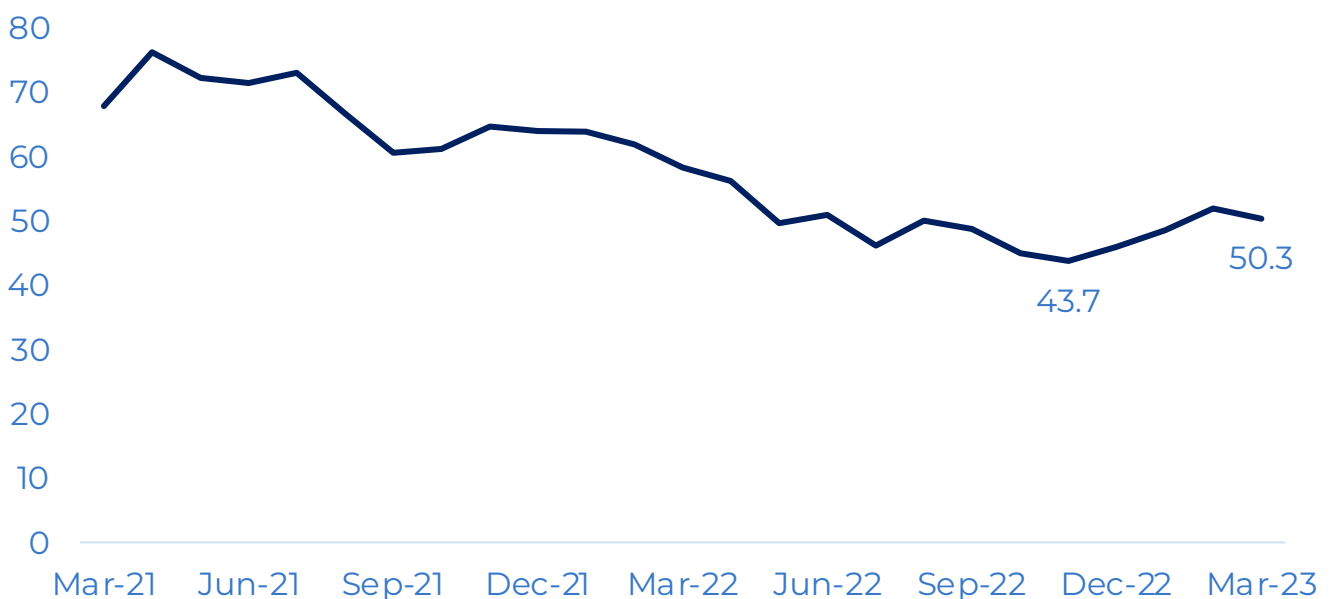
In step with the broader macroeconomic uncertainty expressed by Jay Powell in his March press conference, industry participants appear to be tightening lending standards, as demonstrated by the 130 bp reduction in credit approvals observed from Q4 2022 to Q1 2023

## 5 OUTLOOK

Despite rising interest rates and enhanced macroeconomic uncertainty related to recent developments in the broader banking system, new business volume in the first quarter held strong, with cumulative year to date new business volume up 4% as compared to 2022. Industry leaders are impressed with the resilience of the equipment finance sector, which stands to benefit from the unique opportunity of assisting financially pressured customers with liquidity preservation. Inflationary pressures and concerns about the Federal Reserve's future monetary policy actions remain material industry headwinds. We expect a dampening in industry confidence and data in Q2 as a result of continued bank failures and uncertainty in markets.

The Equipment Leasing & Finance Foundation measures confidence among industry leaders every month. Following a decline over the course of 2022, sector confidence among industry leaders bottomed out in November at 43.7. Sector confidence steadily improved over the following four months, with the index reaching 51.8 in February 2023. This brief trend reversed in March, as the index registered a value of 50.3, representing a 2.9% decline from the prior month.

### 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

 <p><i>acquired</i></p>  <p>COLONNADE</p>	 <p><i>was sold to</i></p>  <p>COLONNADE</p>	 <p><i>was sold to</i></p> <p>COPLEY   EQUITY   PARTNERS</p> <p>COLONNADE</p>	 <p><i>raised capital from</i></p>  <p>COLONNADE</p>
 <p><i>was sold to</i></p>  <p>COLONNADE</p>	 <p><i>was sold to</i></p>  <p>COLONNADE</p>	 <p><i>was sold to</i></p>  <p>COLONNADE</p>	 <p><i>was sold to</i></p>  <p>COLONNADE</p>

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

Sources: SEC filings, Company Earnings Calls, Seeking Alpha, Equipment Leasing and Finance Foundation, ELFA, St. Louis FRED, Federal Reserve

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