

# Equipment Finance Quarterly Update: 2023 Second 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 second 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. The metrics below are quarterly figures based on ELFA’s monthly survey:

## ELFA: SURVEY OF EQUIPMENT FINANCE ACTIVITY HIGHLIGHTS

	Q2 2023	Q/Q CHANGE	Y/Y CHANGE
NEW BUSINESS VOLUME	\$30.1 Billion	11.1%	(0.3%)
NET CHARGE-OFFS <sup>1</sup>	4.12%	5.1%	221.9%
CREDIT APPROVALS <sup>2</sup>	76.6%	1.6%	(1.1%)

### NEW BUSINESS VOLUME IS DOWN

New business volume decreased modestly by 0.3% year-over-year, however cumulative new business volume year to date was up 1.9% as compared to 2022.

### CHARGE-OFFS ARE UP

Among the portfolios analyzed, overall charge-offs<sup>1</sup> increased by 284 basis points year-over-year. Charge-offs<sup>1</sup> increased 20 basis points from Q1 2023 to Q2 2023.

### CREDIT APPROVALS ARE UP




Credit approvals<sup>2</sup> increased by 123 basis points from Q1 2023 to Q2 2023. Compared to Q2 2022, the sector saw a 87 basis point decline in approvals.

<sup>1</sup>Annualized sum of ELFA-reported monthly charge off percentages

<sup>2</sup>Weighted average based on new business volumes

## 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	\$6,400.0	(0.4%)	2.6%
 customers bank	\$383.2	6.2%	34.4%
 Peoples BANK	\$377.8	6.5%	20.1%
 WINTRUST	\$274.4	7.0%	22.6%
 PACIFIC WESTERN BANK	\$251.9	(7.3%)	30.0%
 BankUnited	\$237.8	(10.8%)	(28.6%)
 pathward	\$202.0	18.4%	(7.7%)
<b>AGGREGATE REPORTED<sup>2</sup></b>		<b>2.8%</b>	<b>10.1%</b>

<sup>1</sup>\$ in millions  
<sup>2</sup>Excludes PNC

## COMMENTARY

Excluding PNC, the group of public companies reported outstandings growth of 2.8% quarter-over-quarter and 10.1% year-over-year. Despite the modest quarterly growth of the tracked index of public companies, the President and CEO of ELFA recently indicated an optimistic near-term outlook for the industry:



“The second quarter concludes on an optimistic note, as MLFI respondents reported strong business performance coupled with a positive outlook for the short-term future of the industry. As inflation continues to decelerate and the Fed appears to be on the verge of achieving an economic soft landing, the equipment finance market enters the second half of the year in fine shape.”

*-Ralph Petta, President and CEO,  
ELFA*



### 3 RECENT TRANSACTIONS

#### M&A DEALS

Sector M&A volume has been sparse in the first half of 2023, as many commercial banks focused on maintaining deposits and navigating the banking crisis. Buyers with access to low-cost capital continue to be acquirers in the space, as evidenced by Servus Credit Union’s June 2023 acquisition of Stride Capital Corp.

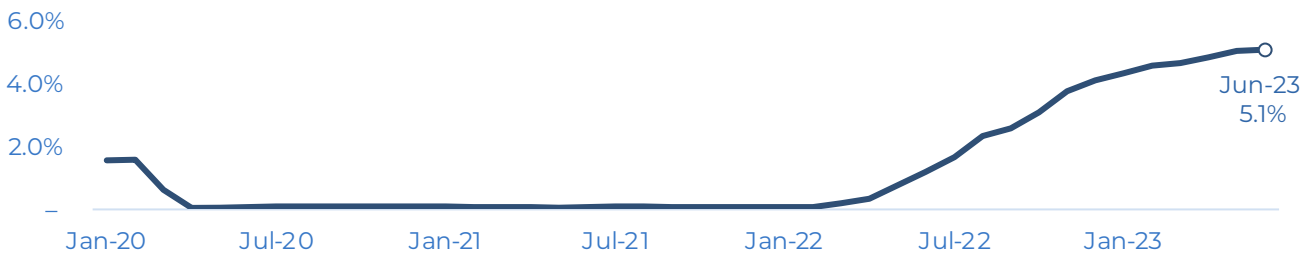
	TARGET	BUYER
June 2023	Stride Capital Corp. <i>(Calgary-based)</i>	Servus Credit Union
December 2022	NORFUND CAPITAL <i>(Toronto-based)</i>	FIRST FINANCIAL EQUIPMENT LEASING
October 2022	VISION FINANCIAL GROUP <sup>b</sup>	CIVISTA BANCSHARES*
August 2022	KLC FINANCIAL <sup>b</sup>	GULF COAST BANK & TRUST*
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*

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

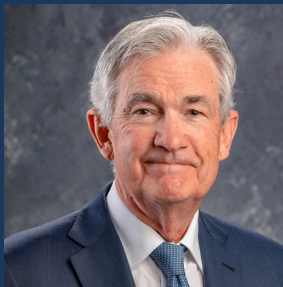
\*Bank acquisitions

## 4 FEDERAL FUNDS RATE

In 2022, the Fed rapidly increased the Federal Funds Rate by 425 basis points through seven rate hikes. While rate hikes have continued in 2023, the pace has slowed substantially. From January to June 2023, the Fed only raised rates 75 basis points, even electing to maintain its target rate in June. Despite the June pause in rate increases, the majority of Committee participants anticipate further rate hikes by the end of the year.



Source: St. Louis FRED



**Jerome Powell**  
Federal Reserve Chairman

June 2023 Press  
Conference

“We have been seeing the effects of our policy tightening on demand in the most interest rate-sensitive sectors of the economy, especially housing and investment. It will take time, however, for the full effects of monetary restraint to be realized, especially on inflation. The economy is facing headwinds from tighter credit conditions for households and businesses, which are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. In light of how far we’ve come in tightening policy, the uncertain lags with which monetary policy affects the economy, and potential headwinds from credit tightening, the Committee decided at today’s meeting to maintain the target range for the federal funds rate at 5 to 5¼ percent...nearly, nearly all Committee participants expect that it will be appropriate to raise interest rates somewhat further by the end of the year”

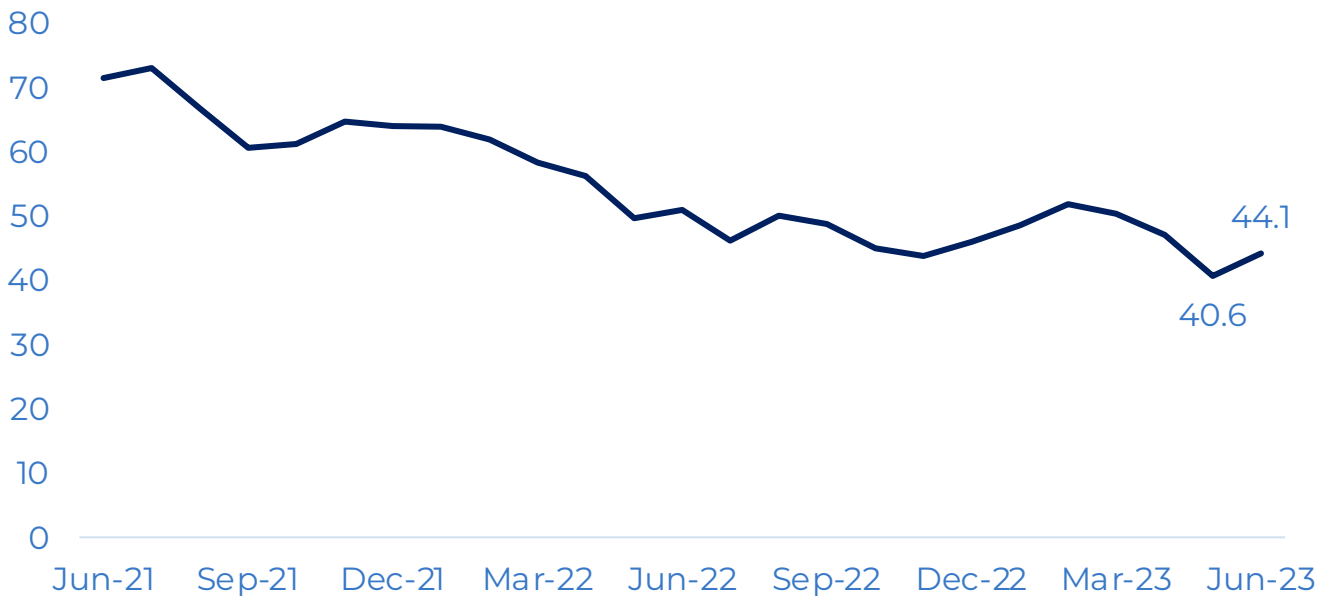
While the deceleration of rate hikes in 2023 reduced the severity of spread compression experienced by the industry, the potential for future rate hikes this year represents a meaningful headwind for equipment finance companies.

## 5 OUTLOOK

Despite rising rates and associated economic headwinds, new business volume was robust in the 2<sup>nd</sup> quarter, up 11.1% from Q1 2023 and nearly returning to prior year levels. Banks have begun tightening senior credit facilities, creating demand for supplemental capital from equipment finance operators.

The Equipment Leasing & Finance Foundation measures confidence among industry leaders every month. Industry confidence continued to fall in April and May as rate hikes and banking crisis-related uncertainty dampened industry sentiment. Sector confidence rebounded to 44.1 in June as the banking sector stabilized and the Fed elected to hold the Federal Funds Rate steady.

### 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 August 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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