

# Equipment Finance Quarterly Update: 2023 Third 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.

This report analyzes data from the third 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 owners 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 groups.

## 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

	Q3 2023	Q/Q CHANGE	Y/Y CHANGE
NEW BUSINESS VOLUME	\$29.7 Billion	(1.3%)	2.1%
NET CHARGE-OFFS <sup>1</sup>	4.08%	(1.0%)	96.2%
CREDIT APPROVALS <sup>2</sup>	74.7%	(2.5%)	(2.9%)

### NEW BUSINESS VOLUME IS RELATIVELY FLAT

New business volume was relatively unchanged, down 1.3% quarter-over-quarter but up 2.1% year-over-year. Year-to-date cumulative new business volume increased 1.9% compared to 2022.

### CHARGE-OFF GROWTH SLOWS

After rising sharply in recent quarters, overall charge-offs<sup>1</sup> decreased by four basis points in Q3. Despite this slowdown, charge-offs<sup>1</sup> were still up 200 basis points year-over-year.

### CREDIT APPROVALS ARE DOWN

Credit approvals<sup>2</sup> declined by 191 basis points quarter-over-quarter. Compared to Q3 2022, the sector saw a 222 basis point decrease in approvals in Q3 2023.

<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	\$6,493.0	1.5%	4.9%
 Peoples BANK	\$402.6	6.6%	28.7%
 customers bank	\$387.2	1.0%	15.9%
 WINTRUST	\$275.2	0.3%	12.4%
 PACIFIC WESTERN BANK	\$233.2	(7.4%)	14.6%
 BankUnited	\$219.9	(7.5%)	(29.1%)
 pathward	\$183.4	(9.2%)	(13.0%)
<b>AGGREGATE REPORTED<sup>2</sup></b>		<b>(1.5%)</b>	<b>5.3%</b>

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

## COMMENTARY

Excluding PNC, the group of public companies reported a 1.5% quarter-over-quarter decline in outstandings, but growth of 5.3% year-over-year. Experts remained cautious regarding the sector’s short-term outlook through the end of the year.



“Respondents to the September survey show a slight decline in new business volume, providing fresh evidence that liquidity issues brought about, in part, by high interest rates and stubborn inflation are having a somewhat negative impact on demand for business equipment in select sectors. Of equal or greater concern is the quality of equipment finance company portfolios, as losses and delinquencies continue to edge up slightly. Both bear monitoring as we enter the fourth quarter of the year.”

*-Ralph Petta, President and CEO,  
ELFA*



“After the positive growth of recent months, the September survey results underscore the near-term challenges being faced by the U.S. economy. With monetary policy remaining restrictive and the cloud of further rate hikes still hanging in the air, business confidence has continued to soften and curtail investment activity. Our industry has demonstrated its resilience, having successfully navigated these economic headwinds for most of 2023 and delivering year-over-year growth. However, recent adverse events, such as the escalation of hostilities in the Middle East, will weigh on market sentiment and could further slow activity in the final months of the year.”

*-Bill Stephenson, Global Chief Executive Officer,  
PEAC Solutions*

## 3 RECENT TRANSACTIONS

### M&A DEALS

Despite the Fed Funds rate staying roughly flat, equipment finance deal activity remained slow in the third quarter of 2023 as portfolios reset to higher interest rates. Banks continued to focus on organic deposit growth and preserving liquidity as elevated interest rates and general economic uncertainty persisted in the market.

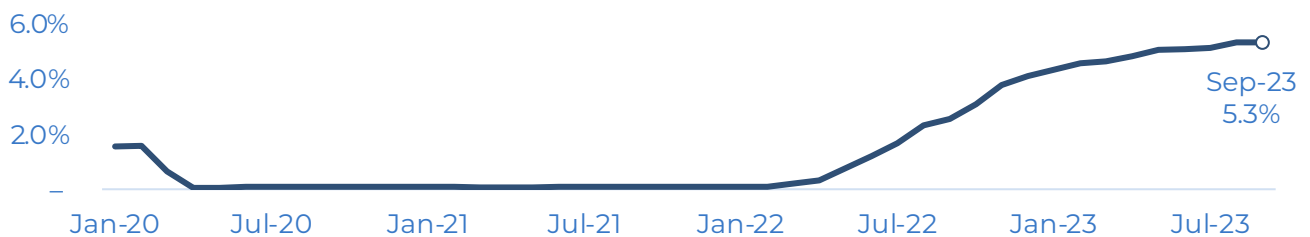
	TARGET	BUYER
June 2023	Stride Capital Corp. <i>(Calgary-based)</i>	Servus Credit Union
December 2022	NORFUND CAPITAL <i>(Toronto-based)</i>	FIRST FINANCIAL EQUIPMENT LEASING
October 2022	VISION FINANCIAL GROUP <sup>b</sup>	CIVISTA BANCSHARES*
August 2022	KLC FINANCIAL <sup>b</sup>	GULF COAST BANK & TRUST*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

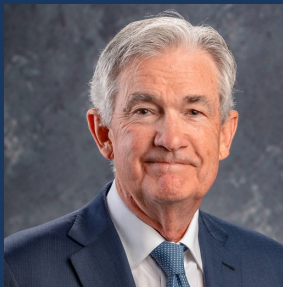
\*Bank acquisitions

## 4 FEDERAL FUNDS RATE

Following the rapid interest rate increases seen throughout 2022 and the first half of 2023, the Fed held rates steady in June and September 2023 as inflation cooled. According to Business Insider, several outside institutions, including Bank of America, believe that there may be substantial rate cuts in 2024, with the U.S. stock and bond markets seemingly pricing in an easing monetary policy over the next year.<sup>1</sup> However, Chairman Powell has indicated that rates could remain higher for a prolonged period of time and has not ruled out further increases as the Fed aims to bring inflation down to its 2% goal.



Source: St. Louis FRED



**Jerome Powell**  
Federal Reserve Chairman

September 2023 Press Conference

“Since early last year, we have raised our policy rate by 5¼ percentage points. We see the current stance of monetary policy as restrictive, putting downward pressure on economic activity, hiring, and inflation. In addition, the economy is facing headwinds from tighter credit conditions for households and businesses. In light of how far we have come in tightening policy, the Committee decided at today’s meeting to maintain the target range for the federal funds rate at 5¼ to 5½ percent and to continue the process of significantly reducing our securities holdings ... If the economy evolves as projected, the median participant projects that the appropriate level of the federal funds rate will be 5.6 percent at the end of this year, 5.1 percent at the end of 2024, and 3.9 percent at the end of 2025.”

While the pause in rate hikes helped ease the spread compression felt across the equipment finance sector, borrowing costs remain high, and any additional monetary tightening poses a risk to the industry.

<sup>1</sup>Business Insider: “Interest rate cuts are coming next year, Bank of America says”

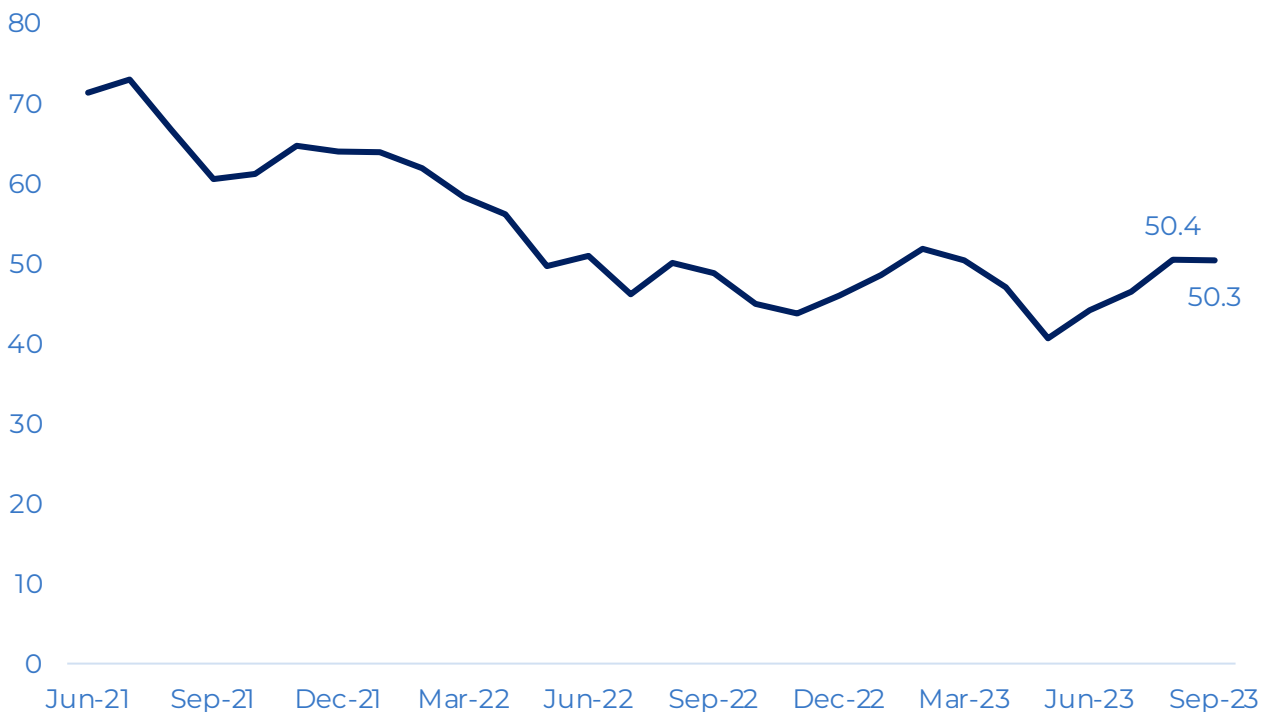
## 5 OUTLOOK

Deal volume was sluggish in Q3 2023, decreasing 1.3% quarter-over-quarter, with many portfolios yet to reset to the elevated interest rate environment. Charge-offs remain higher than previous years, but the slight drop this quarter was a promising sign for the sector after significant increases in recent quarters.

Liquidity concerns arising from high interest rates and ongoing economic uncertainty continue to pose headwinds for the industry, but independent lenders reported continued demand from borrowers seeking flexible financing alternatives as banks maintain tighter credit standards.

The ELFA's monthly survey of key industry executives reported a slight rebound of industry confidence in July and August 2023, before holding flat at 50.3 in September. While the sector continues to face substantial headwinds, leaders see promise in the resilience it has shown thus far.

### 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

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 <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 December 2023. It is not investment advice, and Colonnade undertakes no obligation to update the information contained herein.

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

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