

Equipment Finance Quarterly Update: 2024 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 report analyzes data from the first quarter of 2024 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

	Q1 2024	Q/Q CHANGE	Y/Y CHANGE
NEW BUSINESS VOLUME	\$26.5 Billion	(15.1%)	(2.2%)
NET CHARGE-OFFS ¹	5.6%	14.8%	42.9%
CREDIT APPROVALS ²	76.3%	1.0%	1.3%

NEW BUSINESS VOLUME FALLS

New business volume decreased by 15.1% quarter-over-quarter primarily due to seasonality, with originations falling by 2.2% year-over-year.

CHARGE-OFF GROWTH INCREASES

Charge-offs¹ continued to grow in Q1, increasing by 70 basis points quarter-over-quarter and 170 basis points year-over-year. Between 2020 and 2022 charge-offs fell significantly below the normal annual rate of 4.4% to a low of 1.0% in Q1 of 2022. Since Q1 of 2022, annual charge-offs have steadily increased to the current rates as delinquencies rose to a peak of 2.5% in Oct-23. Despite charge-offs remaining above normal levels, delinquencies fell to 2.1% in Q1 2024.

CREDIT APPROVALS ARE UP

Credit approvals² increased by 100 basis points quarter-over-quarter. Compared to Q1 2023, the sector saw a 130 basis point increase in approvals in Q1 2024.

¹Annualized sum of ELFA-reported monthly charge off percentages

²Weighted 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 ¹	Q/Q CHANGE	Y/Y CHANGE
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\$6,462.0

0.2%

0.6%



\$422.7

2.1%

19.2%



\$412.9

0.4%

14.4%



\$283.6

0.8%

10.6%



\$168.6

(10.7%)

(1.2%)

AGGREGATE REPORTED²

(0.6%)

12.7%

¹\$ in millions

²Excludes PNC

BankUnited removed due to a change in reporting

COMMENTARY

Excluding PNC, the group of public companies reported a 0.6% quarter-over-quarter decrease in outstandings, and growth of 12.7% year-over-year. Despite total industry originations falling in Q1 2024, most of the public companies continued to grow their equipment finance portfolios, except for Pathward, whose portfolio decreased by 10.7%. Experts remained cautious but optimistic regarding the sector's short-term outlook for the next quarter.



“Some pullback in new business volume in March largely reflects the effect of banks tightening their lending. Instead of a customary end-of-quarter spike, banks saw originations fall more than 20% in March, while other respondents enjoyed a stronger month. Credit quality is mixed, with receivables continuing to improve while charge-offs ticked back up. Interestingly, results of an informal poll of MLFI-25 respondents indicate some customers are limiting their equipment acquisitions until interest rates come down, which supports our Foundation’s forecast that equipment and software investment should pick up in the latter part of the year when the Fed is expected to begin its rate cuts. Along with the improved GDP growth forecast, we remain cautiously optimistic for continued growth for our industry.”

*-Leigh Lytle, President and CEO,
ELFA*



“The equipment leasing and finance industry has historically been an excellent predictor of economic times. There was much confidence as we entered this year that originations and portfolio performance would continue to improve as witnessed by the strength of the U.S. economy. However, the punch bowl may have been taken away with March’s inflation report. We are seeing industry benchmark rates returning to November levels. As a result, the thought of a Fed rate cut may be delayed. We already saw a dip in small business optimism and persistent higher levels of inflation may further dampen it. Middle market businesses had seemed more optimistic in Q1 to spend, but CFOs may hit the pause button as well. All this suggests rougher waters to navigate over the next few months on both sides—front end originations and back-end portfolio management.”

*-Miles Herman, Chief Executive Officer,
LEAF Commercial Capital, Inc.*

3 RECENT TRANSACTIONS

M&A DEALS

Despite the Fed Funds rate remaining flat, the first equipment finance deal since Jun-23 was completed in Apr-24 as portfolios acclimated to the current rate environment. Banks continued to focus on organic deposit growth and preserving liquidity as elevated interest rates and general economic uncertainty persisted in the market.

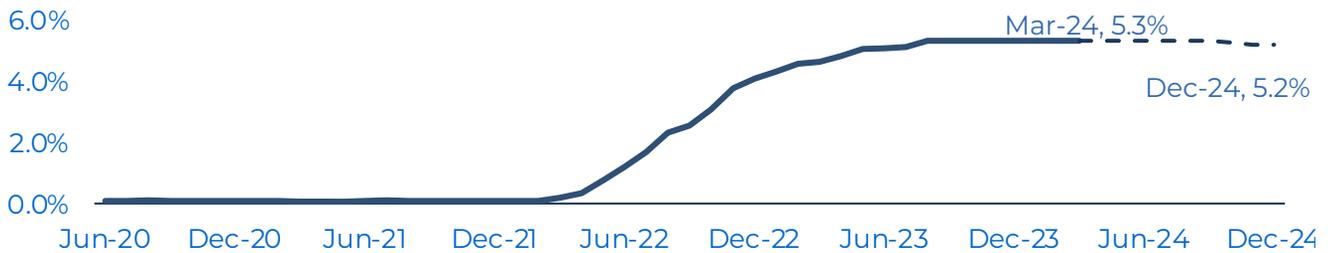
	TARGET	BUYER
April 2024	OAKMONT CAPITAL SERVICES	JA MITSUI LEASING
June 2023	STRIDE CAPITAL CORP. <i>(Calgary-based)</i>	SERVUS CREDIT UNION
December 2022	NORFUND CAPITAL <i>(Toronto-based)</i>	FIRST FINANCIAL EQUIPMENT LEASING
October 2022	VISION FINANCIAL GROUP ^b	CIVISTA BANCSHARES*
August 2022	KLC FINANCIAL ^b	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

^bColonnade buy-side engagement that did not transact

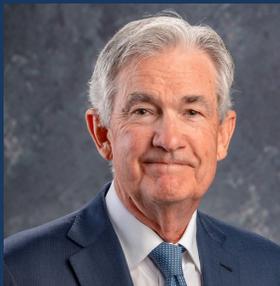
*Bank acquisitions

4 FEDERAL FUNDS RATE

Following the rapid interest rate increases seen throughout 2022 and the first half of 2023, the Fed held rates steady through the first quarter of 2024 as inflation failed to decline. According to S&P Global, analysts believe that the Fed will begin to gradually lower rates starting in Q4 of this year to below 3% by 2027.¹ Despite the market's optimism for rate cuts, Jerome Powell does not expect the Fed will cut rates unless inflation moves significantly toward the Fed's 2% target.



Source: St. Louis FRED, S&P Global



Jerome Powell
Federal Reserve Chairman

May 2024 Press
Conference

“We’ve said that we don’t think it would be appropriate to dial back our restrictive policy stance until we’ve gained greater confidence that inflation is moving down sustainably toward 2 percent. So, for example, let me take a path: If we did have a path where inflation proves more persistent than expected and where the labor market remains strong, but inflation is moving sideways and we’re not gaining greater confidence, well, that would be a case in which it could be appropriate to hold off on rate cuts.”

While the pause in rate hikes helped ease the spread compression felt across the equipment finance sector, borrowing costs remain high, and any additional rate cuts would significantly improve spreads as portfolios reset to higher interest rates.

¹S&P Global: “Global Economic Update: Policy and Exchange Rate Forecasts Revised on New Fed Funds Rate Expectations”

5 OUTLOOK

Deal volume picked up slightly in the first quarter of 2024, as portfolios continue to reset to current interest rate levels. While charge-offs remained higher than normal compared to pre-Covid figures, the decline in delinquencies indicate charge-offs are likely to return to more normal levels in the upcoming months. Lenders also remain optimistic that the Fed will cut rates in Q4 of this year, reversing interest rate compression on their portfolios.

The positive trends in the equipment finance industry drove an increase in ELFA’s Monthly Confidence Index, which surveys key industry executives.

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 2024. 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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