

Equipment Finance Quarterly Update: 2024 Second Quarter



Mergers & Acquisitions
Capital Raising
coladv.com

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 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

	Q2 2024	Q/Q CHANGE	Y/Y CHANGE
NEW BUSINESS VOLUME	\$31.2 Billion	17.7%	3.7%
NET CHARGE-OFFS ¹	5.2%	(7.1%)	26.2%
CREDIT APPROVALS ²	75.0%	(1.8%)	(2.1%)

NEW BUSINESS VOLUME FALLS

New business volume increased by 3.7% year-over-year, driven by borrowers becoming more comfortable with the current rate environment.

CHARGE-OFF GROWTH INCREASES

Charge-offs¹ decreased in Q2 compared to Q1, falling by 40 basis points quarter-over-quarter but increasing 110 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. Delinquencies have remained around 2.1% after peaking in Oct-23, despite charge-offs remaining above normal levels.

CREDIT APPROVALS ARE DOWN

Credit approvals² decreased by 130 basis points quarter-over-quarter and by 160 basis points year-over-year but remain within the historical average of 75%.

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
 PNC	\$6,555.0	1.4%	2.4%
 KeyBank	\$2,744.0	(15.6%)	(0.7%)
 Peoples BANK	\$430.7	1.9%	14.0%
 customers bank	\$420.4	1.8%	9.7%
 WINTRUST	\$275.5	(2.9%)	0.4%
 pathward	\$155.0	(8.0%)	(23.2%)
AGGREGATE REPORTED²		(0.5%)	3.6%

¹\$ in millions

²Excluding PNC and KeyBank

COMMENTARY

Excluding PNC, the group of public companies reported a 0.5% quarter-over-quarter decrease in outstandings, and growth of 3.6% year-over-year. The equipment finance industry as a whole grew by 17.7% compared to last quarter and by 3.7% compared to last year, primarily driven by smaller, independent lenders. Experts are optimistic regarding the sector's short-term outlook for the next quarter and rest of the year.



“Our latest MFLI report shows modest cooling in the equipment leasing and finance industry. A pullback in origination activity at banks caused overall new business volume to dip in June after double-digit growth in the previous two months. That said, portfolio quality remained consistent, fluctuating within a narrow range as receivables improved and losses dipped. We expect financial conditions to remain solid in 2024 as recent inflation data leads the Fed to begin easing borrowing costs in September. That would boost equipment demand, which in turn should bolster economy-wide investment through the end of the year.”

*-Leigh Lytle, President and CEO,
ELFA*



“The current moment, while not simple, is a very interesting one for Amur and other well-capitalized independents. Banks have been so dominant in our industry for so long, but with banks looking to lend less, we expect to see continued opportunities to be the go-to source of financing in the marketplace. Given our 28-year track record and time-tested platform, we are proud that we have been able to stay consistent and reliable with our partners regardless of market fluctuations.”

*-Todd Wainwright, SVP, Amur
Amur Equipment Finance*

3 RECENT TRANSACTIONS

M&A DEALS

High interest rates continued to depress equipment finance valuations leading to a slowdown in deal activity. Since Q2 2023, only one deal was completed in April of this year. In this quarter, banks focused on organic deposit growth and preserving liquidity as they allowed their portfolios to reset to the higher interest rate environment.

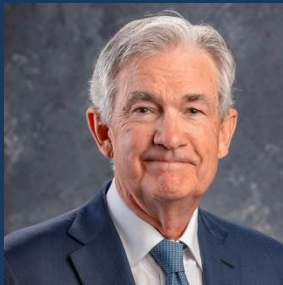
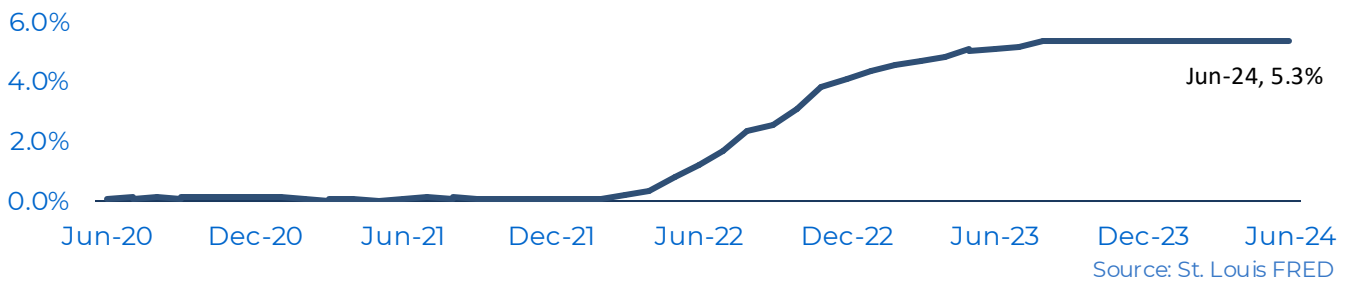
	TARGET	BUYER
April 2024	OAKMONT CAPITAL SERVICES	JA MITSUI LEASING
June 2023	STRIDE CAPITAL CORP. <i>(Calgary-based)</i>	SERVUS CREDIT UNION
December 2022	NORFUND CAPITAL <i>(Toronto-based)</i>	FIRST FINANCIAL EQUIPMENT LEASING
October 2022	VISION FINANCIAL GROUP ^b	CIVISTA BANCSHARES*
August 2022	KLC 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 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 has continued to hold rates steady through the second quarter of 2024 as inflation failed to decay past the 2% benchmark. Jerome Powell’s recent statements are more optimistic about the economy returning to a 2% inflation rate, allowing for rate cuts. Since the end of the quarter, the case for rate cuts was strengthened by recent job creation data. In Jul-24, the US added 65,000 fewer jobs than forecasted and reduced historical job creation numbers by 818,000, causing US BLS to cut its job forecast for the remainder of the year.¹



Jerome Powell
Federal Reserve Chairman

August 2024 Speech in Jackson Hole, WY

“Overall, the economy continues to grow at a solid pace. But the inflation and labor market data show an evolving situation. The upside risks to inflation have diminished. And the downside risks to employment have increased. As we highlighted in our last FOMC statement, we are attentive to the risks to both sides of our dual mandate. The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks. We will do everything we can to support a strong labor market as we make further progress toward price stability. With an appropriate dialing back of policy restraint, there is good reason to think that the economy will get back to 2 percent inflation while maintaining a strong labor market.”

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.

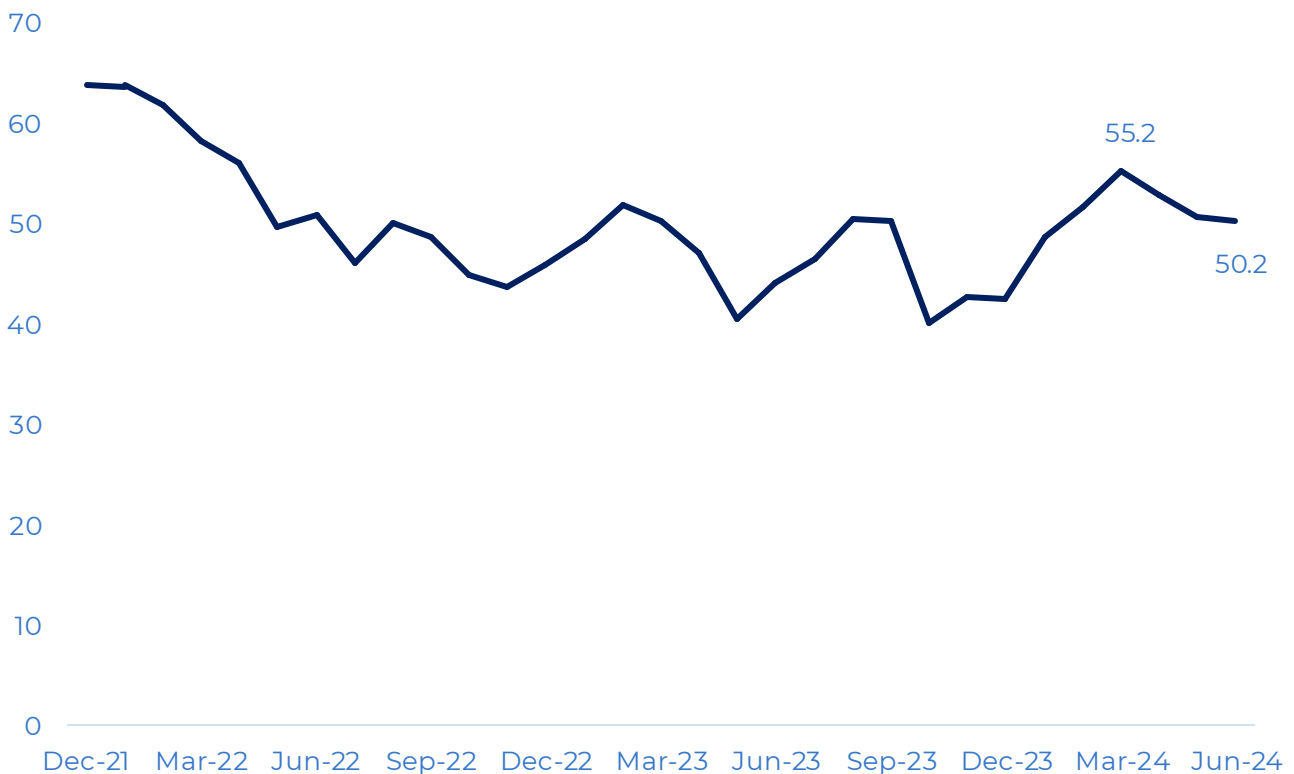
¹Rueters: “US job growth in year through March was far lower than estimated”

5 OUTLOOK

The equipment finance industry closed its first deal in the second quarter of 2024, despite the current interest rate levels. Although charge-offs remained elevated compared to pre-COVID figures, the persistently low delinquency rates suggest that charge-offs may return to more typical levels in the coming months. With both economists and Jerome Powell indicating that rate cuts are likely later this year, the equipment finance industry could experience some prosperous coming quarters.

The steady trends in the equipment finance industry drove the small month over month variances 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>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>

For more information on the Equipment Finance industry, please contact:



Jeff
Guylay
Managing Director
847.452.8315
jguylay@coladv.com



Gina
Cocking
Managing Director
312.953.2658
gcocking@coladv.com



Jack
Collins
Associate
312.544.8543
jcollins@coladv.com



Peyton
Nimsakont
Analyst
312.870.6212
pnimsakont@coladv.com



Matt
Magee
Sr. Account Executive
312.870.6204
mmagee@coladv.com



Colonnade Advisors LLC • 600 Cleveland Street • Suite 272
Clearwater, FL • 33755

Investment banking services provided through Colonnade Securities LLC,
member FINRA

Colonnade is an independent investment bank focused on the financial services and business services sectors. Colonnade provides expert, objective advice on mergers and acquisitions, private placements, fairness opinions, valuation opinions and corporate finance issues for privately held businesses, publicly traded companies and financial sponsors. Our senior bankers bring extensive transaction experience, industry expertise, a process orientation and a sense of urgency to each engagement.

This advertisement was prepared August 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

©2024 Colonnade Advisors LLC.

Copyright and Other Important Information

This document, including text, graphics, logos, icons, images and the selection and arrangement thereof, is the exclusive property of Colonnade Advisors LLC and is protected by U.S. and international copyright laws. Colonnade hereby permits you, unless you are an investment bank or other financial advisor, to download, copy, distribute, publish, reproduce, cite, link or post this document or its contents subject to the following conditions: 1) you retain on any material all copyright and other proprietary notices and 2) you do not modify this document or its contents in any way. Colonnade reserves all rights not expressly granted. This document and the information that it contains are produced by Colonnade Advisors LLC solely for general background information on the matters described. This document or any of its information may not be used for investment, valuation or accounting purposes. None of Colonnade or its representatives or affiliates has agreed to or has assumed any responsibility to provide you with investment advice, whether in a fiduciary capacity or otherwise.