



# Small Ticket Equipment Finance & Leasing



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## **Small Ticket Equipment Finance and Leasing**

Small ticket equipment finance and leasing companies are a significant source of funding for capital equipment. The small ticket equipment finance/leasing segment is significant, accounting for about one-third of the total \$1 trillion of annual equipment leasing and finance volume in the United States. These lenders/lessors focus on transactions of \$250,000 and below (including “micro-ticket” deals of under \$25,000). The participants in this sector of the commercial finance market are surprisingly diverse, ranging from major banks to nimble independent firms. Go-to-market strategies vary as well – most firms in the sector originate through channel partnerships with equipment manufacturers and vendors, but some firms use direct sales methods or a broker network. The customers of small ticket equipment finance and leasing companies are also quite diverse, ranging from small Tax law created stability, businesses/sole proprietorships to major corporations. Finally, small ticket equipment finance and leasing companies offer a range of products, from conditional sale agreements (a term loan secured by equipment) to operating leases (shorter-term rental arrangements with equipment ownership retained by the lessor).

Since the financial crisis and recession of 2008 – 2009, several major non-bank independent equipment finance and leasing firms have prospered as banks withdrew from the marketplace. The demise and dismantling of GE Capital also created major opportunities for non-bank leasing and finance firms. As the recovery gained length and strength, banks became less ambivalent about this segment. M&A transaction activity in the past two years heralds the re-emergence of commercial banks as buyers of small ticket equipment finance and leasing companies. Other non-bank strategic buyers are also active. As these independent firms are absorbed into larger lending enterprises, emerging firms are seeking to become the new independents. A handful of these young companies are building tech-enabled platforms and deploying different business models (including the marketplace lending/exchange strategy) to the market. Private equity firms and family offices with an interest in the industry are making investments in these emerging small ticket equipment finance/leasing firms.

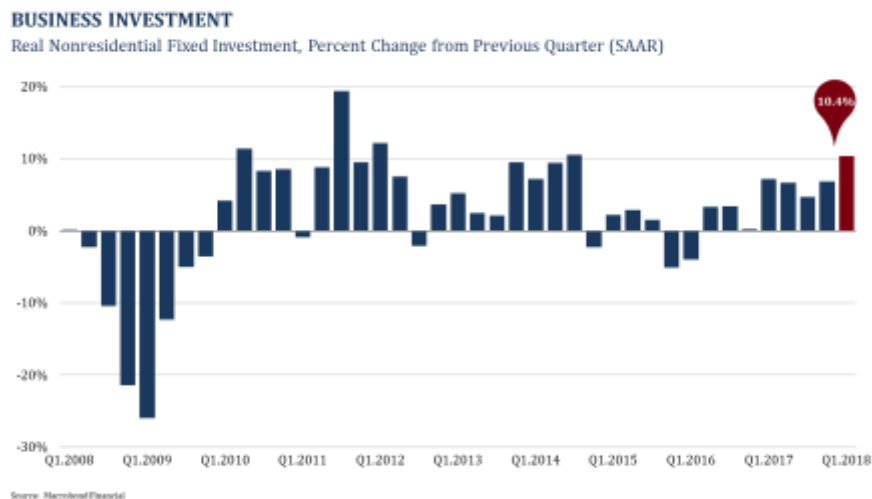
Relative to other forms of lending with similar risk/reward characteristics, small ticket equipment finance and leasing generates superior returns. Point-of-sale origination (via vendors/dealers/retailers) increases ease of use for the customer and limits price competition. Disciplined credit underwriting leads to predictable credit performance. Several significant small ticket equipment finance and leasing firms (including GreatAmerica Financial Services, Ascentium Capital, Amur Equipment Finance, North Mill Equipment Finance and many others) have tapped the securitization market for funding due to the granularity and consistent performance that a solid portfolio can produce. The overall M&A market for specialty finance companies remains robust. Investor interest in point-of-sale, tech-enabled business models is quite strong, as demonstrated by the recent initial public offering of GreenSky. We expect to see continued high levels of acquisition and capital markets activity in the small ticket equipment finance and leasing sector over the next two years, with momentum sustained by the continuing economic expansion in the U.S.

### **U.S. Equipment Finance and Leasing Market is Strong**

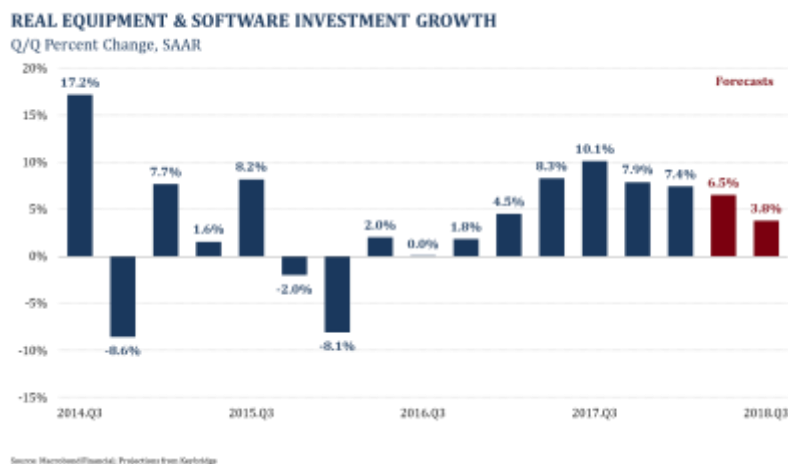
The small ticket (under \$250,000 per transaction) equipment finance and leasing segment accounts for about one third of the \$1 trillion equipment finance/leasing market in the United States, according to the Equipment Leasing and Finance Association (ELFA). About 68% of all capital equipment purchases in the United States are financed; the rest are cash purchases. Companies elect to finance/lease equipment for a variety of reasons:

- Preserve capital for other mission-critical purposes
- Match equipment cost with future cash flows
- Maximize the value of tax benefits associated with equipment ownership by leasing assets

Of course, the health of the overall U.S. economy drives the demand for capital equipment. Remarkably, the U.S. economic expansion is gaining strength as it approaches its tenth anniversary. Real GDP grew by 4.1% in the second quarter of 2018. After seven consecutive quarters of declines, business investment in non-residential assets began to recover in 2010. After an initial spike, that recovery has slowed but now appears to have changed in the first quarter of 2018, when non-residential investment grew by over 10%, the fastest pace in three years. This important measure increased by over 7% in the second quarter of 2018.



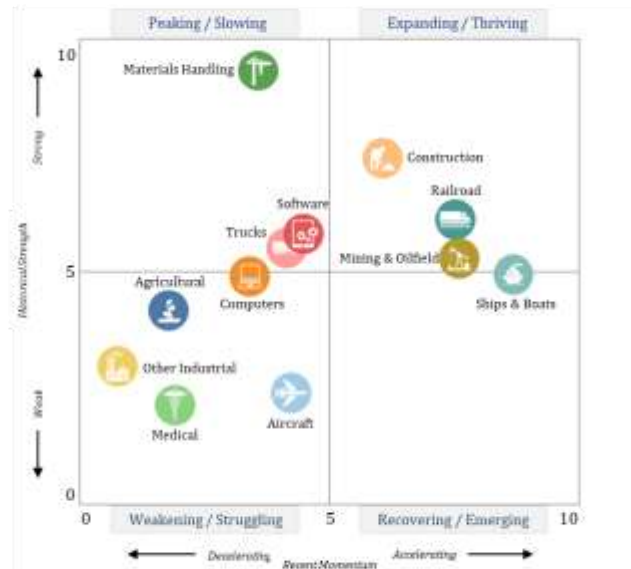
Investment in equipment and software grew by 4.9% in 2017; it appears that growth may reach or exceed that level in 2018.



The overall capital equipment market is comprised of several significant sub-markets. The ELFA compiles a “momentum index” for the major sectors. Six out of the eleven major equipment sub-

markets are exhibiting a momentum index above their historical averages.

### EQUIPMENT & SOFTWARE INVESTMENT Momentum Monitor (Equipment Vertical Performance Matrix)

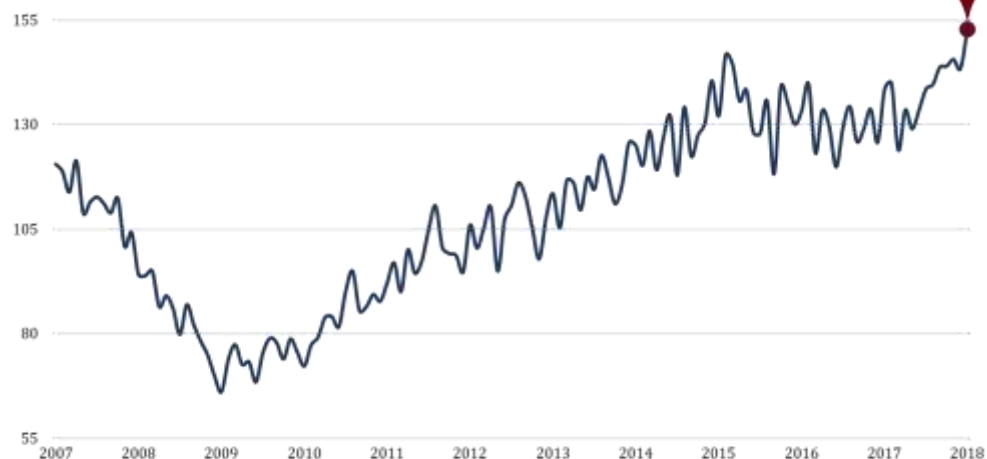


Source: Q3 2018 Equipment Leasing & Finance U.S. Economic Outlook.  
For more information on how to use the Momentum Monitors, see final slide.

Demand for credit by small businesses is also expanding briskly. PayNet's Small Business Lending Index provides a measure of loans and leases issued to small businesses over the past 30 days. The index hit an all-time high in May 2018 before declining a bit in June.

### PAYNET SMALL BUSINESS LENDING INDEX (SBLI)

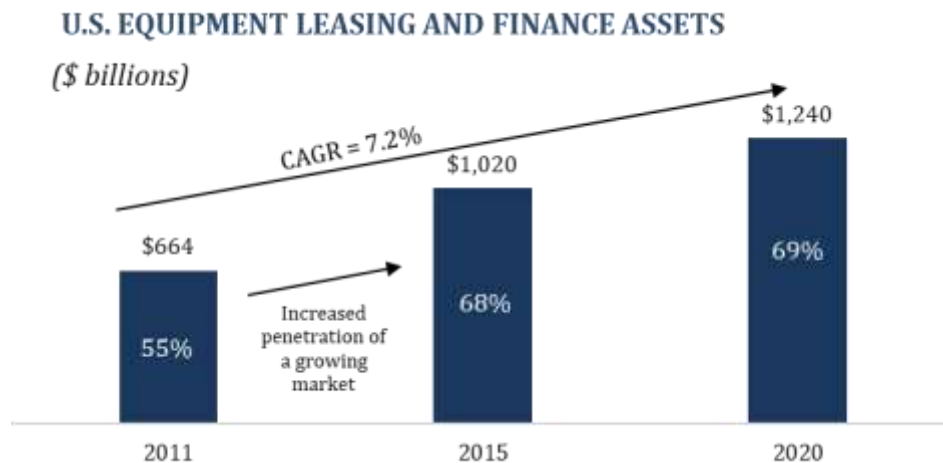
January 2005 = 100



Source: PayNet

This growth in business and software investment and small business borrowing has led to expansion in the overall equipment finance and leasing market:





Source: Equipment Leasing and Finance Foundation

Macroeconomic conditions are quite favorable for continued growth in the small ticket equipment market, which bodes well for the companies that provide financing for that equipment.

### Small Ticket Equipment Finance and Leasing Market – Segments and Participants

The small ticket equipment finance and leasing market has the following primary features:

- Small ticket: \$25,000 to \$250,000; micro-ticket: under \$25,000
- Generally, a flow business; primarily indirect origination via channel partnerships; banks and non-banks participate in this segment
- Credit scoring is often used, although custom underwriting is also common
- Driven by relationships with channel partners (equipment manufacturers, distributors, vendors/retailers and transaction brokers)
- A few firms have a direct origination strategy

Small ticket equipment finance and leasing firms can be categorized in different ways:

- Ownership: bank-owned, owned by a manufacturer/distributor (captive), or independent
- Transaction size: Small ticket (\$25,000 - \$250,000) or micro-ticket (under \$25,000)
- Equipment focus: Specialist (*i.e.* transportation equipment, IT equipment, etc.) or generalist (focused on credit underwriting, not equipment)
- Product focus: equipment secured debt (conditional sale agreements, etc.), or operating leases (returns come, in part, from anticipated post-lease residual value of equipment)
- Origination strategy: Via equipment vendors, transaction brokers, or direct to borrowers/lessees

Since most small ticket equipment finance and leasing firms originate via channel partnerships, industry statistics from the vendor equipment finance sector provide a picture of the scale and dynamics of the market. Many of the largest participants in the sector are bank-owned; the top 25 participants in vendor channel equipment finance/leasing include 15 bank-owned firms that generate 60% of the volume of the group.

<b>TOP 25 VENDOR CHANNEL LEASING/FINANCING FIRMS</b>			
<b>Rank</b>	<b>Company</b>	<b>2017 Volume (\$'s in MM's)</b>	<b>Ownership</b>
1	DLL USA	11,595	Foreign bank
2	Wells Fargo Equipment Finance	8,854	Domestic bank
3	Banc of America Leasing	3,406	Domestic bank
4	U.S. Bank Equipment Finance	2,339	Domestic bank
5	PNC Equipment Finance	2,216	Domestic bank
6	Key Equipment Finance	1,617	Domestic bank
7	Bank of the West	1,030	Domestic bank
8	EverBank Commercial Finance	975	Domestic bank
9	TCF Equip Finance/Winthrop Resources	952	Domestic bank
10	GreatAmerica Financial Services	890	Privately-owned
11	Ascentium Capital	841	Private equity
12	Societe Generale Equipment Finance USA	814	Foreign bank
13	Marlin Business Services	548	Public
14	LEAF Commercial Capital	466	Domestic bank
15	Hitachi Capital America	397	Foreign non-bank
16	ENGs Commercial Finance	355	Private equity
17	Stearns Bank	288	Domestic bank
18	SunTrust Equipment Finance & Leasing	252	Domestic bank
19	Canon Financial Services	246	Foreign non-bank
20	Western Equipment Finance	219	Domestic bank
21	Navitas Credit	169	Domestic bank
22	FNB Equipment Finance	157	Domestic bank
23	Amur Equipment Finance	133	Privately-owned
24	BB&T Commercial Equipment Capital	147	Domestic bank
25	VAR Technology Finance	145	Privately-owned

*Source: Monitor Magazine, May/June 2018 "2017's Most Active Players in the Vendor Channel"*

Many small ticket equipment finance and leasing firms augment their vendor-based transaction flow by utilizing independent equipment finance/leasing transaction brokers. One of the largest firms to use the broker channel is Financial Pacific Leasing, which was purchased by a Portland OR-based bank, Umpqua Holdings Corporation, in 2013. Umpqua had \$1.3 billion of net leases and equipment loans outstanding as of June 30, 2018 – most of this portfolio is managed by Financial Pacific.

As mentioned earlier, there are relatively few small ticket equipment finance and leasing firms that use direct origination (lender-to-borrower). One of the most successful firms that has adopted this strategy is First American Equipment Finance. This firm is a subsidiary of City National Bank, which is owned by Royal Bank of Canada. First American participates in the small ticket segment but also funds much larger transactions. The firm has long used a direct sales strategy, including telemarketing and online origination, to solicit business. First American Equipment Finance had total assets of over \$1.4 billion at the end of 2017. City National Bank bought First American Equipment Finance from its founders in 2012.

There are dozens of smaller, private firms that operate in the small ticket equipment finance and

leasing sector. Some of these companies are owned by private equity firms or family offices; others are still controlled by the founders. The table below lists a sample of this group.

Company	Focus	Location
Allegiant Partners	Generalist	Walnut Creek CA
Amur Equipment Finance	Generalist	Grand Island, NE
Balboa Capital	Generalist	Cosa Mesa CA
CCA Financial	Technology and Telecommunications	Richmond VA
Crossroads Equipment Finance & Leasing	Trucks & Trailers	Southern California
Currency Capital	Marketplace/exchange model	Los Angeles CA
eLease	Generalist	St. Petersburg FL
Great Atlantic Capital	Generalist	Hackensack NJ
GSG Financial	Material handling equipment	New York NY
Harbor Capital Group	Material handling equipment	Littleton CO
Jules & Associates	Generalist	Los Angeles CA
Lease Corporation of America	Generalist	Troy MI
MicroFinancial, Inc.	Generalist	Boston MA
North Mill Equipment Finance	Generalist	Norwalk CT
North Star Leasing Company	Generalist	Burlington VT
Northland Capital Financial	Construction, Agriculture, Waste/recycling, trucking	St. Cloud MN
Pawnee Leasing	Generalist	Fort Collins CO
Trans Lease, Inc.	Trucks & Trailers	Denver, CO
United Leasing	Vehicles	Evansville IN
Wallwork Financial	Trucks & Trailers	Fargo ND

All credit-based businesses select a position on the risk/reward spectrum. Yield vs. write-off criteria permeates every aspect of a small ticket equipment finance/leasing firm's operations. Credit decisioning, target markets, origination channels, and portfolio servicing are all driven by the credit parameters adopted by the firm. The positions of a few market participants are represented on the following chart.



Source: Monitor Magazine, May/June 2018 "2017's Most Active Players in the Vendor Channel"

Small ticket equipment finance and leasing transactions generate solid asset yields with manageable credit quality costs. The table below compares this asset class with other commercial finance products.

Asset class	Collateral	Avg. Life of Asset (months)	Typical Asset Yield	Annual Credit Losses
Asset based lending (Deals > \$500K)	Trade receivables and inventory	3 to 9	P+6.5%	1%
Equipment Leasing/ finance (Deals > \$250K)	Industrial & transportation equipment	36	5% -12%	0.75%
Factoring (Deals > \$300K)	Trade receivables	2	18% - 30%	1% - 3%
Insurance premium finance (Deals < \$50k)	Unearned premiums - P&C policies	5.5	7% -12%	0.50%
Merchant Cash Advance (Deals < \$300K)	Unsecured	4	25% - 155%	8% - 15%
Second Lien and Subordinated Lending (Deals > \$5MM)	Junior claims on assets or unsecured	36	12% - 22%	6%
Small and micro-ticket leasing (Deals < \$250K)	Office, POS, small industrial equipment	21	8% - 25%	2% - 5%
Term loans (including SBA loans) and lines of credit	Miscellaneous - receivables, inventory and/or fixed assets	12- 120	7% - 30%	4% - 8%

Source: Colonnade Securities LLC research

## Recent Transactions Are Influencing Investor Awareness

The industry backdrop for small ticket equipment finance and leasing companies has been quite dynamic over the past several years. A major bombshell hit in April 2015 when General Electric announced that it would exit most of GE Capital's businesses. This led to a string of large transactions and a major reshuffling of equipment finance and leasing players. GE Capital was one of the largest small ticket lessors in the country; the demise of GE Capital created major opportunities



for other small ticket equipment finance and leasing firms. Investors and strategic acquirors have taken notice - over 30 equipment leasing/finance M&A transactions have been completed in the past 45 months; most of these have involved companies in the small ticket equipment segment.

Some of the larger independent small ticket equipment finance and leasing firms have been acquired by strategic buyers. When a bank buys a non-bank equipment finance and leasing firm, the transition to a more highly-regulated environment can impact the customer experience. This provides an opening for independent firms to gain market share. We believe that the high level of M&A activity, combined with the lingering turmoil of GE Capital's exit, will lead to the emergence of a new crop of nimble, independent small ticket equipment finance and leasing firms. Financial investors have shown great interest in these new, rapidly-growing enterprises. In addition, we expect commercial banks (including smaller banks with total assets in the \$5-\$25 billion range) to continue to pursue the acquisition of small ticket equipment finance and leasing platforms.

A selection of M&A transactions completed over the past 45 months is presented below.

Date	Buyer / Investor	Target
Aug-18	Wafra Capital Partners	North Mill Equipment Finance LLC
Jul-18	Peoples United Bank	Vend Lease Company
Jun-18	Verdant Commercial Capital LLC	Intech Funding Corp.
Jan-18	Copley Equity Partners	North Star Leasing Company
Jan-18	United Community Banks, Inc.	Navitas Credit Corp (owned by BlueMountain Capital)
Jul-17	Solar Capital Ltd.	Nations Equipment Finance LLC
Jul-17	Peoples United Bank	LEAF Commercial Capital (owned by Eos Partners)
Jan-17	Marlin Business Services Corp	Horizon Keystone Financial
Dec-16	Radius Bank	NewStar Financial
Nov-16	LeaseQ	Noesis
Oct-16	Hanmi Financial Corporation	Banc of California CSF portfolio
Oct-16	Engs Commercial Finance Co.	Connex Financial, Ltd.
Oct-16	Warburg Pincus	Ascentium Capital
Aug-16	TZP Capital Partners	Kingsbridge Holdings
Jul-16	Atalaya Capital Management	CG Commercial Finance
May-16	Hitachi Capital	Creekridge Capital
Apr-16	Providence Bank	Cobra Capital
Mar-16	Bofl Holding, Inc.	Pacific Western Equipment Finance
Jan-16	Union Leasing	Walser Leasing
Jan-16	Navitas Credit Corp	Liberty Financial Group
Nov-15	KLC Financial	Kraus-Anderson
Oct-15	State Bank and Trust	Patriot Capital Corporation
Oct-15	Headhaul Capital Partners & Argosy Investment Partners	Great Western Leasing and Sales, LLC
Sep-15	TAB Bank	Crossroads Equipment Lease & Finance, LLC (loan portfolio sale)
Jul-15	Macquarie Group	Advantage Funding (owned by Marubeni)
Jul-15	Milestone Equipment	US Trailer Holdings & Quest Capital
May-15	Berkshire Hills	Firestone Financial
Apr-15	Cbank	Commercial and Industrial Finance (CI Finance)
Mar-15	Wood Creek	Milestone Equipment Holdings
Feb-15	Chesswood	Blue Chip Leasing and EcoHome Financial
Jan-15	Fortress Investment	MicroFinancial

## **Conclusion**

The scope and dynamics of the small ticket equipment finance and leasing sector are attractive to both financial and strategic investors. The macroeconomic environment is favorable for small ticket equipment finance firms. In addition, market share movement is underway with the departure of GE Capital. We expect that M&A activity and valuations will remain high for the next several years, and the window is open for small ticket equipment finance and leasing firms that are seeking to change ownership or raise capital. Once the economic downturn arrives, however, valuations and transaction activity are likely to drop.

### ***Colonnade advised North Star Leasing Company on its sale to Copley Equity Partners***



*January 2018.* Copley Equity Partners, a private investment firm based in Boston, completed a majority investment in North Star Leasing (NSL), a provider of equipment financing solutions for businesses in a variety of industries. Dan Feeney, NSL's CEO and President, will continue to lead the company.

Founded in 1979 and headquartered in Burlington, Vermont, NSL provides specialized lease solutions for customers across numerous industries, including automotive, healthcare, pet supply, and restaurant. NSL works with thousands of equipment vendors, manufacturers, and resellers to help end-customers finance and access mission-critical equipment. NSL has grown its asset base by 20% annually in recent years.

For more information on the small ticket equipment finance and leasing sector, please contact:

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