EQUIPMENT LEASING & FINANCE
FOUNDATION
Your Eye on the Future

U.S. Equipment Finance Market Study: 2016-2017
Fact Sheet

Study Objectives

In 2012, The Equipment Leasing & Finance Foundation commissioned IHS (IHS Markit) to conduct comprehensive research on the size and expected growth of the U.S. equipment finance market. In 2016, The Foundation commissioned IHS Markit to conduct a new study, analyze changes, and forecast potential future growth. By cross referencing various public and proprietary databases, the new study provides an in-depth review and analysis of equipment financing volume at the national and state level.

Key Findings

Current and Forecasted Overall Equipment Finance Activity:

- In 2015, total public and private investment in equipment and software totaled $1.5 trillion, of which 68% or $1.02 trillion was financed, according to an estimate based on data from IHS and the U.S. Department of Commerce Bureau of Economic Analysis. The 68% share of equipment financed is a significant increase over the 2012 estimate of 55%.
- In 2015, nearly 8 out of 10 (78%) of businesses used at least one form of financing when acquiring equipment (excluding credit card use). This is an increase from 72% of businesses reported in the 2012 study, and represents an increase in the overall propensity to finance.
- In 2016, the market for equipment and software investment is expected to be relatively flat at $1.5 trillion, increasing by only 0.5%. However, due to excess liquidity and strong competition, which have driven down the cost of borrowing, finance volume is expected to outpace total investment growth.
- By 2020, total investment in equipment and software is expected to reach $1.8 trillion, of which $1.24 trillion is projected to be financed.
- Of the 68% of equipment that was financed in 2015, 39% was leased, 16% used a secured loan and 13% used a line of credit. This represents a major shift toward the use of leases and secured loans, which accounted for only 17% and 9% of the total value of financed acquisitions in 2011, respectively. This also marked a significant shift away from lines of credit, which accounted for 29% in 2012.
- The share of cash acquisitions declined for companies of all sizes from 2011 to 2015. With low interest rates, strong competition among lenders and abundant liquidity, financing equipment acquisitions is especially attractive as lenders compete to offer the best rates to borrowers.
- The three biggest equipment types companies acquired in 2015 were communication equipment, computer equipment, and software, which together accounted for 41% of total equipment acquisitions.

- Companies with total acquisitions less than $25,000 are using relatively little financing, likely due to the general upward trend of financing standards required by banks. The rate of financing is greater for higher total acquisition amounts:

Total acquisition amount	Rate of financing
< $25K	68%
$25K-$250K	81%
$250K-$1M	82%
$1M-$5M	83%
>$5M	81%

- The top three external influences on leasing or financing equipment in the next year across all company sizes are general economic conditions, credit accessibility and the anticipated elimination of off-balance sheet financing.
- The top three reasons companies gave for financing equipment acquisition over cash purchases were optimization of cash flow, protection from equipment obsolescence and tax advantages.
- Most industry experts indicated that they expect very little impact on the demand for leasing from the introduction of new lease accounting standards in December 2018. Under the new guidance, lessees will be required to recognize assets and liabilities for leases with terms of more than 12 months. As the new standards have been under discussion for many years, executives expressed that firms will be prepared for the changes.

By Company Size/Revenue

- As in 2012 and a previous 2007 Foundation survey, the 2016 Foundation survey confirms that larger ticket purchases are financed to a greater degree than smaller ticket purchases.
- Among companies with revenues greater than $100 million, 71% indicated that they plan to increase equipment acquisitions in the next 12 months. Of companies with revenues from $25 million to $100 million, 63% plan to increase acquisitions.
- Among companies with under a million dollars of sales revenue, 65% of are planning to remain at the same level or decrease their equipment acquisitions.
- Financing rates are highest for companies with total sales revenues of $5 million to $100 million:

Total sales	Rate of financing
< $1M	74%
<$5M	80%
<$25M	84%
<$100M	87%
>$100M	72%

By Equipment Finance Sector

- Bank financing accounted for 47% of financed acquisitions in 2015, compared to 57% in the 2012 survey. While banks' share of financing activity has decreased, they remain the primary lenders across all equipment types in 2015. The smallest penetration for bank financing is in software purchases, for which banks hold only a 38% share.
- Manufacturer or vendor financing accounted for 30% and Independents accounted for 16% of the total market for financing.
- Banks continue to focus their new financing efforts on companies with lower risk profiles. The share of bank financing of highly profitable companies (profit greater than

20% of sales) was 43% in 2015, compared to 47% in 2011. Meanwhile the share of bank lending to unprofitable companies declined from 53% to only 26%, as less profitable companies are forced to seek alternative financing options.
- The growth of fintech companies has been a major development in the equipment leasing and financing industry recently. Industry experts indicate that fintech companies have driven faster adoption of technology and have contributed to the "digitalization" of the lending process.

By State

- The majority of states have less than $25 billion of equipment financing. States like California, Texas and New York have more than the rest of the country, with $104 billion, $90 billion and $53 billion respectively. These same three states also held the top three positions in the 2012 study.
- Alabama has the greatest growth increase of equipment financing at 9% compound annual growth rate (CAGR), while South Dakota has the greatest decrease at -7.8% CAGR.
- Among the top five states by equipment and software finance volume, Texas is forecast to have the strongest growth, increasing by 5.3% CAGR 2016-2020.

Study Methodology

The study draws on data from a number of sources, of which a key input is the custom Foundation borrower survey of businesses that purchased equipment in 2015, conducted in July and August 2016 by IHS Markit on behalf of the Foundation. In the course of the survey, respondents were asked to convey key current and historic data concerning their firm's industry classification, revenue, size, value of equipment purchases, and financing tendencies by equipment type. The respondents also shared their opinions on the key drivers of equipment investment and made forward looking statements regarding their intent to increase investment. Since most of the data provided by survey participants contained sensitive company-specific information, the results have been aggregated in this report to ensure confidentiality.

Additional data sources include:

- Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices
- Federal Reserve Flow of Funds
- U.S. Department of Commerce Bureau of Economic Analysis
- Equipment Leasing and Finance Association's 2012 Survey of Equipment Finance Activity
- IHS Equipment Market Monitor

How to Access the Study

The *U.S. Equipment Finance Market Study: 2016-2017* is available for free download at http://www.leasefoundation.org/research/sefi/. Key findings and a table of content are also are available.

About the Foundation

The Equipment Leasing & Finance Foundation is a 501c3 non-profit organization dedicated to inspiring thoughtful innovation and contributing to the betterment of the equipment leasing and finance industry. Funded through charitable individual and corporate donations, the Foundation focuses on the development of in-depth, independent research and resources for the advancement of equipment finance industry knowledge. Visit the Foundation online at http://www.LeaseFoundation.org.

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