2017 SURVEY of EQUIPMENT FINANCE ACTIVITY

ELFA

EQUIPMENT LEASING AND FINANCE ASSOCIATION

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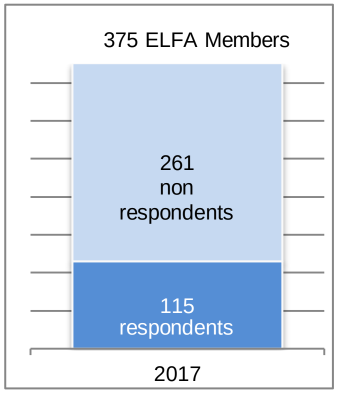
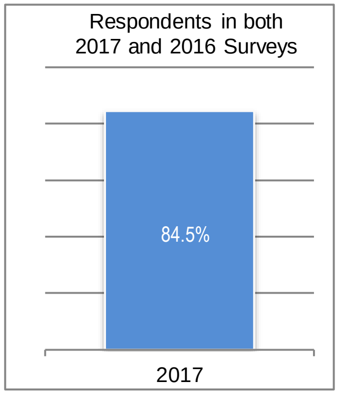
About The ELFA 2017 Survey of Equipment Finance Activity Report

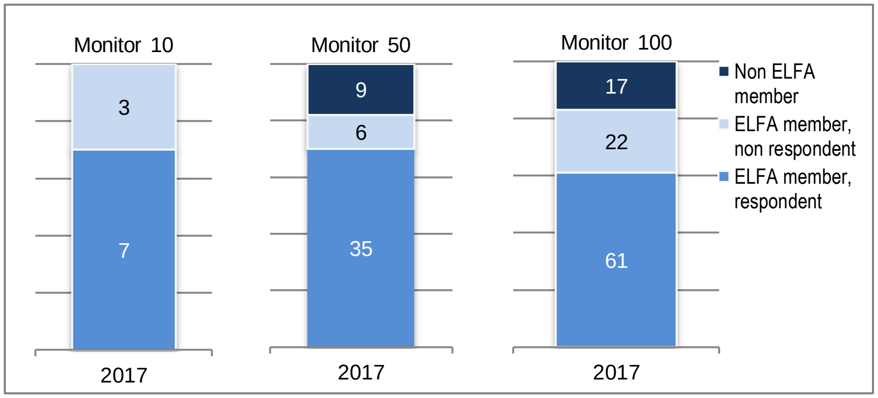
Who Participates in This Survey?

ELFA Members participate in the Survey. Respondents to this survey represent the majority of the 2016 Monitor 100, with 73.5% of the assets reported there

Note that this report has a different scope than the Monitor. Here, we ask respondents to focus exclusively on their U.S. equipment leasing and finance business only.







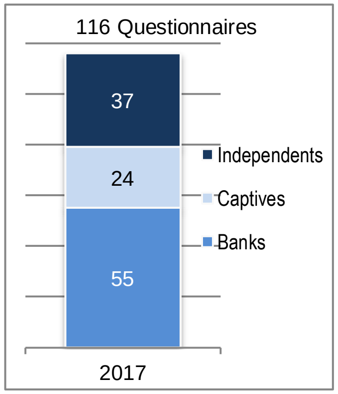
One respondent provided two questionnaires based on business units. 116 questionnaires were used to compile this Survey.

What Information Is Provided in This Survey?

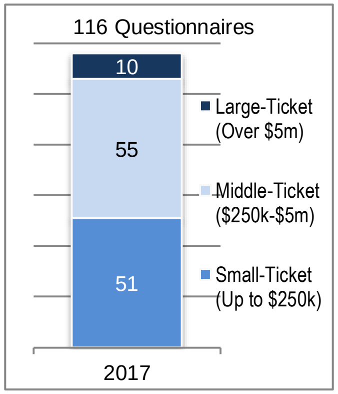
- Financial and Operational Information, covering New Business Volume (NBV), Financial Statements, Collections, Credit, Remarketing, Employee Levels.
- The data represents operations in the **United States** only.
- Respondents are asked to **exclude** dealer floorplan or wholesale financing, real estate leasing and financing, and non equipment finance operations.
- The data is **not audited**, but simply **compiled**. The data is **not extrapolated** to industry-wide projections.
- Respondents provide **two years of data** for almost all data points covered in the Survey.
- Respondents do not necessarily provide data for all 65 questions in the Survey. Note that each table shows the number of respondents included in that table.

How Are Respondents Categorized?

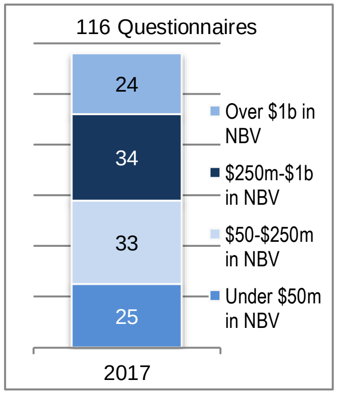
By **Type of Organization**



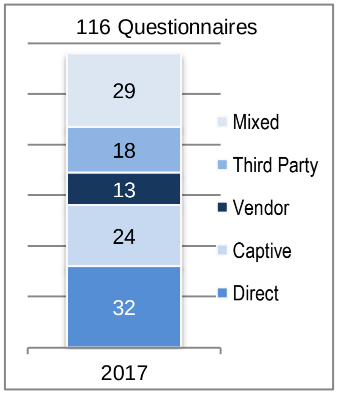
By **Market Segment**



By **Organization Size**



By **Origination Business Model**



For complete definitions of these categories, please see the Glossary in the Appendix to the report.

EXECUTIVE SUMMARY

The Equipment Leasing and Finance Association is pleased to present the 2017 Survey of Equipment Finance Activity. The Survey is the most important source of statistical information available on the $1-trillion equipment finance industry. This survey report covers key statistical, financial and operations information for 115 equipment leasing and finance companies.

Seven consecutive years of growth would tempt fate in any economy. But fears of a U.S. recession subsided in 2016 amid guarded optimism on Wall Street—made stronger by the presidential election—and slow but continued recovery in the wake of the Recession of 2008-2009.

Equipment leasing and finance companies generally mirrored those conditions with an overall increase in New Business Volume (NBV) of 2.5% in 2016. While the rate contrasts sharply with the 12.4% growth reported for 2015, but the industry nonetheless outperformed the national economy, which grew just 1.6% for the year, according to the U.S. Department of Commerce.

Survey results revealed 2016 as a year of steady if not stellar performance for the industry. Efficiencies gathered from increased automation and greater application of data analytics contributed to an overall year-over-year dollar increase in net income of 7.8%. Assets under management rose by nearly 14% overall, helped by increases in sales budgets and sales personnel, which reflected companies' efforts to grow volume in an increasingly competitive environment. Return on assets remained positive after declining by a percentage point to 1.4%, and balance sheets strengthened as net worth rose by more than 9%. Reserve for losses remained unchanged from 2015 at 0.7% of total assets. Additional findings pertaining to the full industry appear after the following breakdown.

Key Findings by Sector

Banks

As in 2015, Banks drove the industry's 2016 growth, still bolstered by absorption of portfolios formerly owned by GE Capital and the fact that banks' surging market share increasingly has led banks to compete mostly with other banks. NBV for the sector rose 5% in 2016 to $79 billion, compared to $75 billion in 2015. Market share also inched upward, from 67% in 2015 to 69% in 2016. In 2008, by comparison, banks held a 48% share.

Banks also led an industry-wide increase in headcount, raising their numbers by nearly 20%. Many of the new hires went to work in compliance while many others entered sales. Again, absorption of the GE Capital portfolio, augmented by acquiring banks' addition of personnel, were likely causes.

Whether it was due to improved customer situations, more focused marketing or both, bank credit approvals in dollar terms climbed 6.5% in 2016 to roughly 71% of applications submitted. Nonetheless, booked and funded applications as a percentage of approved applications fell slightly, indicating that although more customers were given the green light to receive funding, they went elsewhere to get it—or postponed the equipment acquisition.

Meanwhile, bank delinquencies edged up to 1.0% from 0.8% in 2015. But the rate was the lowest in the three sectors for 2016 and by industry standards, any rate below 2% is considered extremely low. Net full-year losses at banks doubled from 2015—but at 0.24%, still barely made the charts and were the lowest for the three industry sectors. In all, banks enjoyed a successful year, skillfully managing their balance sheets and capital requirements to grow their net earning assets by a higher rate than needed to grow their equity, thus leveraging their growth.

Captives

Troubled by slumps in agriculture and trucking as well as fundamental shifts in Information Technology, captives experienced a sharp decline just under 6% in NBV for 2016. This was the third year of struggle for the sector, but the first in which new business volume fell instead of rising somewhat. Not all captives

EXECUTIVE SUMMARY *… continued …*

in the survey had difficulties. But of the 10 largest participating in this survey, five saw large-scale declines or sea changes in the core businesses of their parent companies, and declining equipment sales translate to less financing.

On the farming front, the U.S. Department of Agriculture reported that gross cash farm income fell for the third straight year in 2016 due to strong harvests and corresponding drops in crop- and animal/animal-product receipts. Thus, farmers and ranchers continued walking a tightrope between costs and income, requiring them to be deft marketers and planners as well as highly efficient producers of agricultural commodities.

Meanwhile, new-truck sales declined as freight volumes plummeted without clear explanation and carriers acquired used vehicles or refrained from adding to their capacity. Around the same time in a move underscoring the issues facing IT manufacturers, one company announced a major overhaul of its marketing strategies as cloud computing matured, artificial intelligence gained ground and the company worked to reinvent its core products and services. Together these trends challenged the bulk of captive equipment finance companies.

Independents

NBV for independent companies climbed from $6.6 billion in 2015 to $7.4 billion in 2016, at 12% the largest percentage increase of the industry's three sectors. The growth wasn't surprising, given banks' continued regulatory restrictions and captives' focus on financing the products of their parent companies. But with more than $114 billion in new industry volume overall, independents continued to hold less than 7% of total market share, even though that share rose roughly 0.6% last year.

Headcount at independents rose slightly, at 1.9% the smallest growth percentage among the sectors. With little need for regulatory-compliance professionals while also participating in industry-wide investments in technology, however, the increase seems appropriate.

Credit approvals for independents also ticked up following an industry-wide trend, moving from 58.6% to 59.4%. The sector fared better than the industry overall when it came to converting approvals to booked and funded applications, and did better than average with delinquencies, which rose almost imperceptibly for the sector from 1.3% in 2015 to 1.6% last year. The likely reasons: Total headcount for independents increased 9%, and total servicing—which includes headcount for collections and customer service—likewise rose 9%. Clearly, independents have the business processes and employees in place to manage and control their portfolio risk

Overall Trends

By ticket size, industry performance varied, with large-ticket showing a nearly 2% drop in new business for 2016, likely related to declines in corporate aircraft, railroad and trucks and trailers. Meanwhile the middle-ticket market experienced the largest growth in NBV at 5.2% over 2015 figures. Middle-ticket claims the largest share of the equipment finance industry and covers a wide range of equipment types and end-user industries. The small-ticket market grew slightly by 0.8%

EXECUTIVE SUMMARY *… continued …*

Further examination of industrywide findings shows that 60% of respondents experienced growth in 2016, compared to 65% in 2015. End-user industries charting the most growth in NBV were utilities, industrial and air transportation. Growth in utilities and industrial (wood, paper, chemicals and plastics) reflected a record-setting year for the construction industry, in which fourth-quarter 2016 spending outstripped spending for the same period in 2015 by a whopping 4.5 times. Air transportation's advance resulted from strong passenger and cargo demand around the world, expected by industry observers to continue past 2030 as Africa, Asia and The Middle East lead investment in air-transport infrastructure. Equipment types with the most NBV growth were office machines, construction and software, with growth in the latter to be expected from the multiple trends affecting IT.

End-user industries marking the largest declines in NBV included truck transportation, which suffered a freight slump that is abating in 2017. Also experiencing declines were mining, oil and gas extraction, still hurting from the oil glut; and agriculture, forestry and fishing. Information on the nation's 2016 fishing industry was not yet available from the National Oceanic and Atmospheric Administration (NOAA). But disparate reports from organizations that monitor fishing showed several conditions pressuring the shellfish industry in the Gulf of Mexico, from rising fuel costs and market competition from imported shrimp to fleet damage from hurricanes.

In forestry, total production at mid-2016—the latest period for which data is available—had fallen below 2015 levels due to a strong dollar, weak global growth and low commodity prices. Nine months of consecutive declines by last May marked the longest weak streak for industry production in modern history outside of a recession.

Equipment types showing the greatest declines in NBV are those noted in "Key Findings by Sector: Captives."

Relief at last year's overall growth notwithstanding, the slowness of that growth exerted pressure on industry returns as costs of doing business increased. Interest expense for 2016 jumped year-over-year by 14% due to a nearly 16% increase in total debt, and provisions for bad debt doubled to 6.6% of net adjusted revenue as delinquencies ticked up overall to 1.8%, compared to 1.5% in 2015. Pre-tax yields fell 12 basis points from 2015 yields when looking at five-year trends, and although the cost of funds dropped slightly, the yield decrease created ever more shrinkage in pre-tax spreads.

Smart strategy and careful management prevailed in the long run, however. The 21.6% increase in sales and marketing expenses paid off as lease and loan revenues hiked 18.7% over 2015 figures. Average return on equity fell for the third year in a row but remained positive at 11.8%. And while employment levels shot up 13.3% overall in 2016, headcounts in accounting, tax and legal remained stable, reflecting back-room efficiencies as companies continued their push to do more with less. In that vein, non sales-related salaries and wage expenses dropped by more than 6%, even though sales, general and administrative costs rose by 17.6% overall.

Perusal of industry-wide delinquencies revealed a slight uptick in the over-60-day category and a small increase in non-accruals. But recovering remained steady, so any rise in gross full-year losses would tend to drop below the line to become increases in net full-year losses. Yet at 1.8% of receivables over 31 days past due in 2016 compared to 1.5% in 2015, it can reasonably be said that after years of extraordinarily low rates, delinquencies are returning to normal industry levels.

EXECUTIVE SUMMARY *… continued …*

Participants

A total of 116 questionnaires were submitted by ELFA member companies for the 2017 Survey. Participants represent the majority of firms listed in the 2016 Monitor 100 and just over 73% of the assets reported there. For purposes of the SEFA, however, respondents were asked to focus exclusively on their U.S. equipment leasing and finance business. One ELFA member submitted two questionnaires, so in all, 115 ELFA members participated. Just under 85% of this year's respondents participated in last year's Survey.

Of this year's participants, 47% categorize themselves as Banks, while 32% define themselves as Independents and 21% classify themselves as Captives. By market segment, 44% specialize in small-ticket transactions (up to $250,000), while 47% focus on middle-ticket transactions ($250,000 to $5 million). Just 9% work principally in the large-ticket segment (over $5 million).

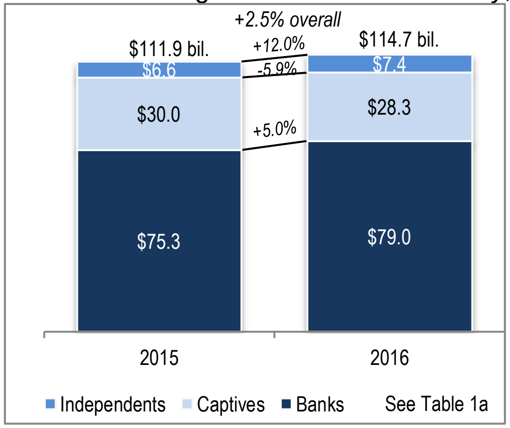
In terms of new business volume, 24 participating companies reported doing over $1 billion in 2016, while 34 participants reported NBV of $250 million to $1 billion. Another 33 participants reported doing $50 million to $250 million, while 25 participants reported under $50 million in NBV. Classifying participants by origination business model, 32 companies reported doing business directly, while 24 said they use a captive model. Another 29 companies reported using mixed models, while 13 said they use the vendor model and 18 said they use third parties. For complete definitions of all categories, please see the Glossary in the Appendix.

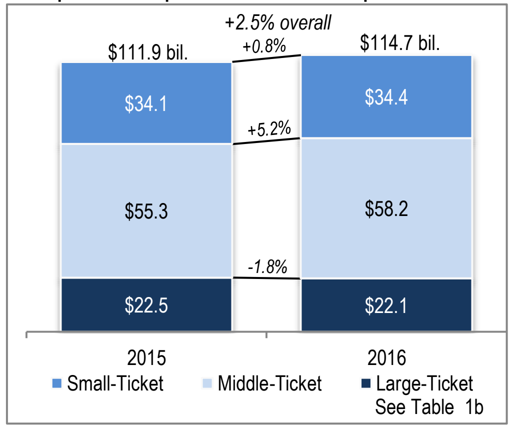
About the Survey

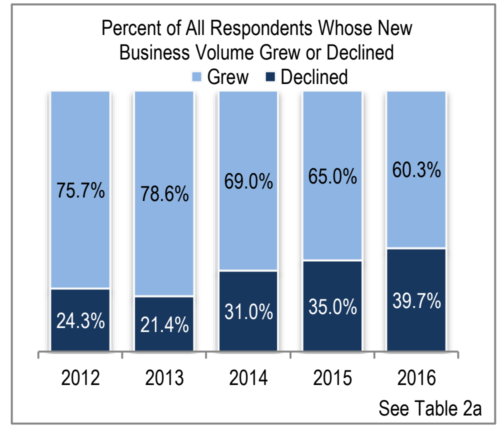
Participation in the Survey of Equipment Finance Activity is a benefit of membership in ELFA. Member-respondents receive a complimentary copy of the survey report, as well as confidential individual company data sheets, which show the individual company's statistics ranked against a peer group.
For more information about the report, please visit www.elfaonline.org/SEFA.

MAJOR FINDINGS

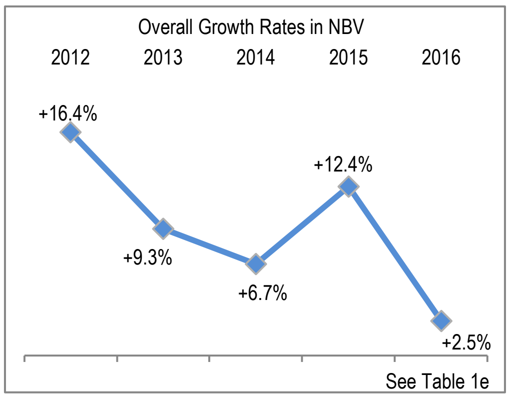
New Business Volume (NBV) **grew modestly by 2.5%** in 2016. Independents grew the most by percentage, though from a lower base. Growth by the Banks drove the overall growth rate for the Survey, and Captives experienced a sharp decline of 5.9%.







Most respondents' volume grew, with 60% of respondents experiencing growth in 2016.



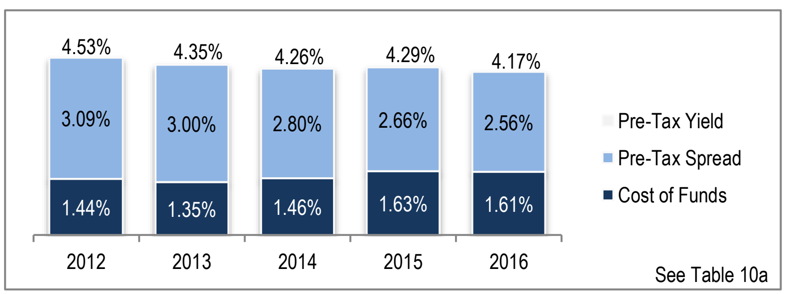
End-User Industries with Most Growth in NBV:
- Utilities
- Industrial - Wood / Paper / Chem. / Plastics
- Air Transportation

End-User Industries with Greatest Decline in NBV:
- Truck Transportation
- Mining, Oil & Gas Extraction
- Agriculture, Forestry & Fishing

Equipment Types with Most Growth in NBV:
- Office Machines
- Construction
- Software

Equipment Types with Greatest Decline in NBV:
- PCs and Workstations
- Corporate Aircraft
- Mainframes & Servers

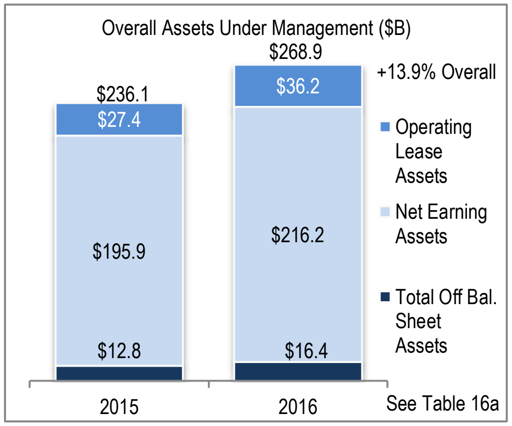
Note that these lists reflect growth and decline rates of respondents who provided two years of data. These growth rates do not reflect changes in the composition of the ELFA survey; for instance, though Caterpillar Financial is no longer participating in the survey, that does not impact agriculture's decline as an end-user industry shown above.

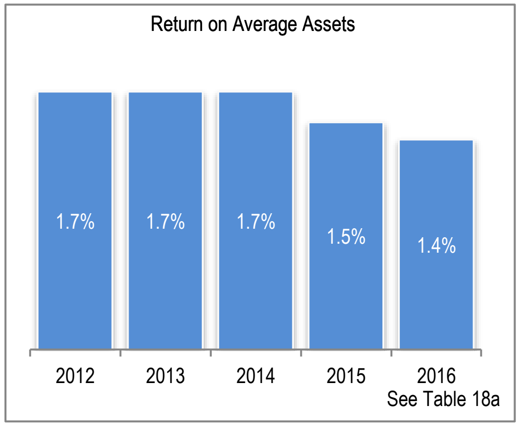


Overall, **Pre-Tax Yields decreased** by **12 basis points** in 2016 compared to the previous year. While the **Cost of Funds decreased slightly** by **two basis points,** the **decrease in yields** resulted in ever **decreasing Pre-Tax Spreads**.

MAJOR FINDINGS *… continued …*

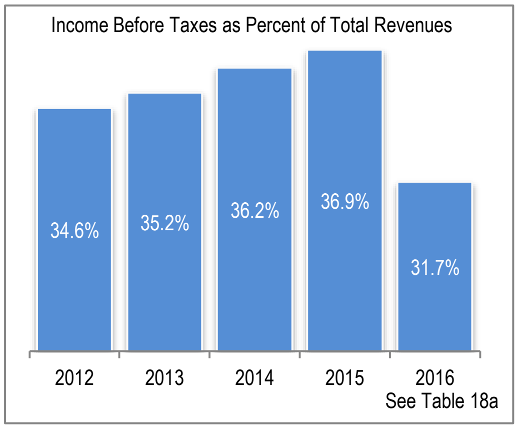
Assets Under Management grew between 2015 and 2016. **Return on Assets** remains positive, though it did decline by ten points to 1.4%.

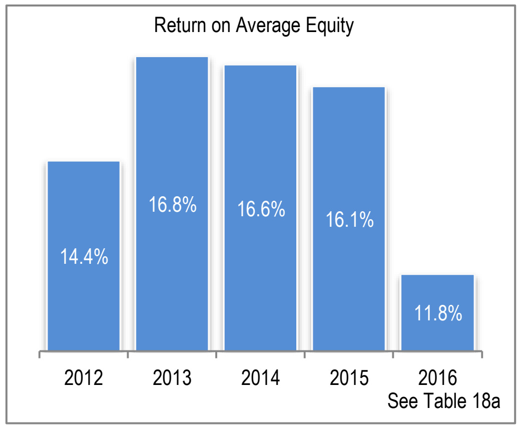




Balance Sheet strength improved.
- Net Worth increased by 9.1% year-over-year while Total Assets Under Management increased by 13.9%.
- Reserve for Losses remained steady year-over-year at 0.7% of Total Assets.

Net Income increased between 2015 and 2016 in dollar terms. **Return on Average Equity decreased** for the second year in a row, but remains **positive**.

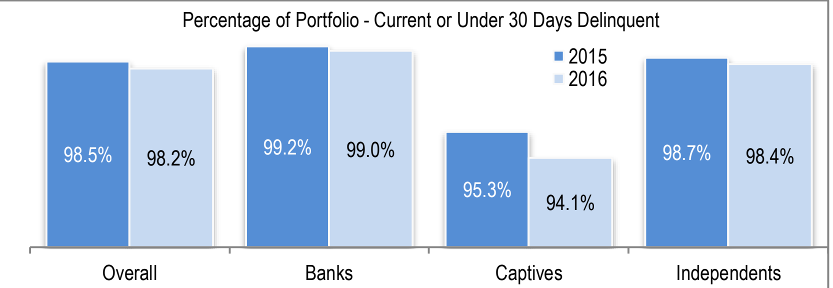




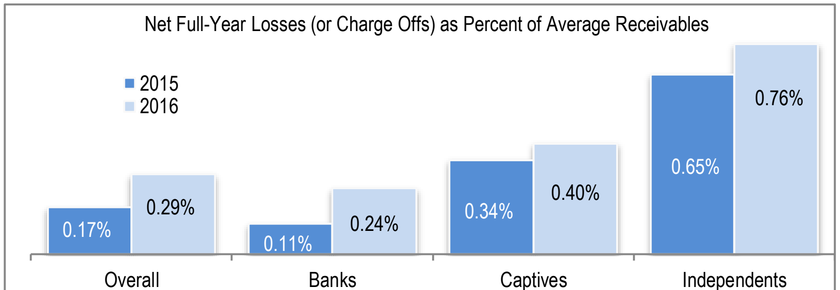
Lease and Loan Revenues increased year-over-year by 18.7%. Net Income grew, but at 7.8%, this growth was lower than overall revenue growth.
- Interest Expense increased year-over-year by 14%. As noted on the previous page, the cost of funds decreased slightly in 2016, but with the increase in total debt by 15.9% year-over-year, this led to an overall increase in interest expense.
- Provisions for Bad Debt doubled, from 3.6% to 6.6% of Net Adjusted Revenue from 2015 to 2016. While this is a sharp increase, it is nowhere near the levels of Provisions as seen, for instance, in 2009 when Provisions reached 19.1% of Total Adjusted Revenues. (See Table 16a in the 2010 Survey of Equipment Finance Activity.)
- Sales and Marketing Expenses increased by 21.6%, as the industry looks to increase volume in an increasingly competitive environment.
- While other Salaries and Wages Expenses decreased by 6.3%, overall Sales, General and Administrative expenses increased by 17.6% in this Survey.

MAJOR FINDINGS *… continued …*

Overall, **Delinquencies increased slightly in** 2016 compared to 2015, with 1.8% of receivables over 31 days past due compared to 1.5% the previous year. **Net Full-Year Losses** or Charge-Offs also increased slightly but remain at **0.29% of average receivables**; any level lower than 1% is considered very low.



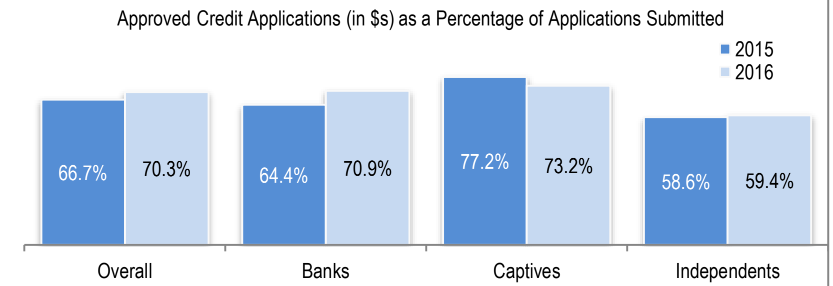
See Table 19c



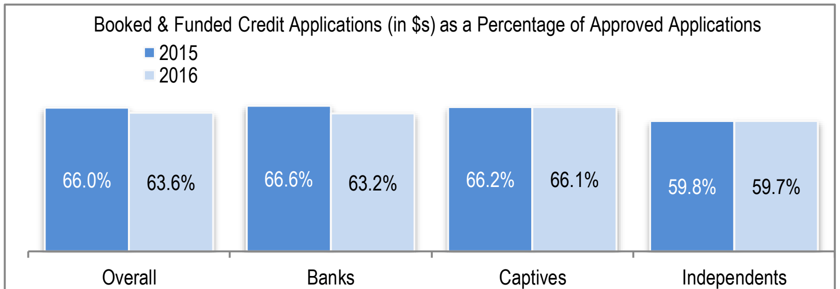
See Table 20c

Delinquencies do remain an issue for certain industries, especially Mining / Oil & Gas Extraction; Railroad Transportation; and Agriculture, Forestry & Fishing.

Credit Approvals increased slightly while the percentage of those approved applications being booked and funded edged down overall.

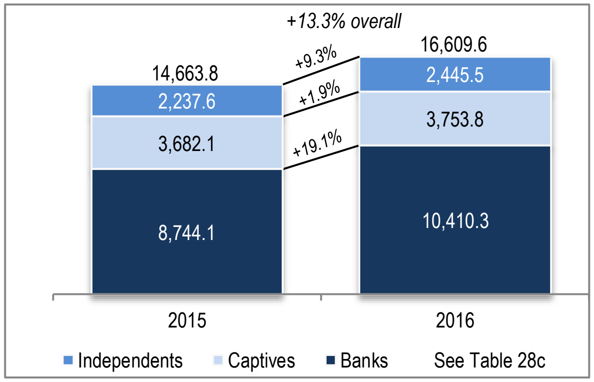


See Table 21a



See Table 21a

Employment Levels grew sharply by 13.3%, with Banks driving that increase. This is likely the continued impact of the absorption of the GE Capital portfolio and personnel by the acquiring banks. Independents and Captives saw significantly lower increases in headcount this year.



See Table 28c

Acknowledgements

Special acknowledgement is given to the ELFA Research Committee, who provided invaluable support and direction in the development of the survey and the interpretation, analysis, and presentation of the results.

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This Survey is **available** as a .pdf document or as a Microsoft **Excel** file. To receive the Excel file, please send your request via email to: elfa.survey@us.pwc.com

Each survey respondent receives an **Individual Company Data Sheet (ICDS)**, which presents key benchmarks for that company, ranked against the overall survey as well as their organization type, market segment and business model. These metrics cover both financial and operational benchmarks.
If you have not received your copy of the ICDS, please send your request by email to:
elfa.survey@us.pwc.com

If you are interested in seeing sections of this report for a customized population selection, please contact Bill Choi at the ELFA by email at:
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