TRENDS IN EQUIPMENT LEASING & FINANCE

Patricia Voorhees
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Seize market opportunities, achieve sustainable revenue growth and improve operational efficiency with our comprehensive advisory services.
AGENDA

Market - Size, Trends and How It’s Different

Buying Patterns The Integrated POS

Leasing Asset Performance and Why It’s an

? - Fintech Opportunities in Equipment
The U.S. Equipment Market Size - $1.7T

- **Enormous U.S. Equipment Market Estimated $1.7T**
- **Traditional bank / captive and independent lessors financing 16% or $275B of purchases**
- **Tremendous opportunity to penetrate cash, CC and WC purchases with technology enabled lease offering**

Term Equipment Leasing & Finance based on Competitive Industry Analysis of The Alta Group

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Preferred Methods Of Financing

- Results of a survey of existing ELFA (Equipment Leasing And Finance Association) members
- Leasing as a preferred method more than doubled 2012-2016
- Significant decrease in use of cash or working capital lines to fund equipment purchases
Why Is Equipment Leasing Different From The SMB Loan Market?

3 Party Transactions

• Vendor, finance source and equipment buyer
• Equipment buyers want integrated flexible financing
• Vendor’s interest is to utilize financing as a tool to increase sales and customer retention

Operational Considerations

• Matching capital flow (vendor funding) with equipment delivery
• Asset specific UCC filings
• Property tax implications/filings
• Vendor data requirements approvals, asset performance aging

Strong Asset Performance

• Equipment leasing assets consistently outperform other asset classes
• Advantaged risk performance due to essential use nature
• Lower cost of capital for experienced lessors vs. SMB loan providers

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Examples Of Fintech And Technology Enable Traditional Lessors

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Trends of Improved Equipment Sales and Desire to Finance Will Benefit Lessors

Customer Desire For Integrated Solutions Will Favor Fintech, technology enabled solutions
Changing Equipment Financing Decisions – Closer To POS And Mobile

2015 Lease Origination By Source

- Vendor Program Originated: 23.4%
- Captive Program Originated: 37.0%
- Originated Directly: 29.2%
- Third-Party Sourced Volume: 10.3%

- Combined origination through Vendor / Captive channels rose from 47% to
- Most of origination migration movement to Captive from Direct Origination
- Financing decision made nearer time of equipment selection
- Increased customer desire for financing solutions Integrated at POS & mobile solutions
Equipment Leasing ABS Outperforms Other Asset Classes

US Small-Ticket: Total Delinquencies vs. Three-Month and 12-Month Averages

- Performed Better than Other ABS Asset Classes
- Outperformed the Stock Market, Corporate Bonds and Real Estate
The SMB loan and lease market has been underserved by banks, opening up opportunities for Fintechs to enter

- Equipment backed securitization transactions have performed extremely well over the cycles in the last 20 years, second only to US Treasuries
- Technology and data driven Fintechs have introduced a broader spectrum of funding sources via automated marketplaces, including accredited investors and other funds, to optimize cost of funds and increase balance sheet resiliency
- Some Fintechs have enough scale now to access the securitization market such as OnDeck…still no example of pure play equipment leasing Fintech with a public or private securitization
- Overall cost of funds higher for Fintechs such as OnDeck based on loan product type, losses and lack of performance data through cycles (OnDeck cost of funds 5.8% - Independent lessor with $350MM or greater annual originations ~2%)
- Due to the essential use nature of equipment and the resultant low loss profile, institutional investors are attracted to equipment backed securitizations…opportunity for Fintech Lessors achieving scale to leverage attractive cost of funds
What’s Next – Financing Product Evolution

Relentlessly evolving customer needs and expectations along with disruptive technologies are transforming the industry landscape…. laggard incumbents will disappear but the nimble will prosper

**Move from Ownership to usage: Increased focus on ‘asset as a service’ with IoT enabling the tracking, management and usage of the asset**

- Approximately 35 million drivers will use car sharing services by 2021¹

**Move from traditional leases/loans to managed solutions: Increased demand for integrated services—Asset + Warranty/Maintenance/Insurance**

- MSTs will make up more than 20% of industry volumes over the next 3 to 5 years²

**Shift towards online and self-service: Mobility/digital on the front end is changing the way buying (of asset) happens and the it is financed**

- For 30% companies, dealer & vendor portal is one of the top 3 key IT initiative³

Summary - Fintech Equipment Leasing Opportunity

Huge Market

- $1.7T U.S. equipment and software market
- Enormous opportunity to penetrate current cash sales and credit card and working capital purchases totaling $1.4T
- Financing decisions increasingly integrated at point of sale
- Emerging Technologies, artificial intelligence, Blockchain have potential to streamline operations between finance sources and vendors enhance the customer experience and stickiness
- Equipment ABS (asset-backed securities), performs better than any asset class but U.S. Treasuries
- Opportunity for Fintech providers with performance history and scale to access cost of funds significantly lower than SMB loan providers
How We Can Help?

Consulting Services Tailored to Fintech - Equipment Finance

- **Strategic Management Consulting**
  - Market assessments
  - Alliances-build or buy
  - Private-label partnerships

- **Merger & Acquisition Advisory**
  - Capital raising
  - Due diligence
  - Business valuations

- **Digital Business Advisory**
  - Assessment, benchmarking, introductions
  - Platform recommendations
  - Financial institution partnering
  - Point-of-sale solutions

Resources


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