2024 SEFA

Survey of Equipment Finance Activity

ELFA
EQUIPMENT LEASING AND FINANCE ASSOCIATION

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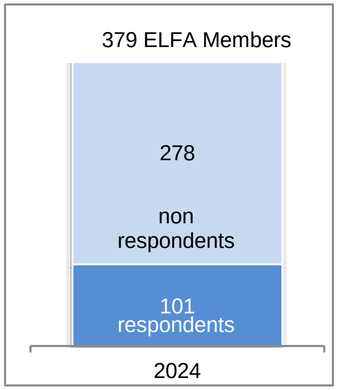
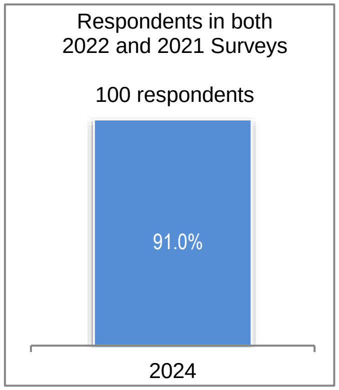
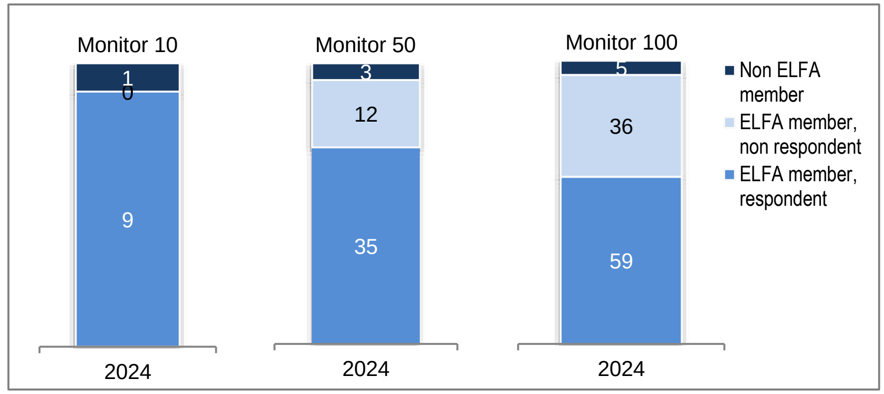
ELFA 2024 Survey Results: Executive Summary

Who Participates in This Survey?

ELFA Members participate in the Survey. Respondents to this survey represent the majority of the 2024 Monitor 100, with 82.2% of the assets reported there. Note that this report has a different scope than the Monitor. Here, we ask respondents to focus on their U.S. equipment leasing and finance business only.







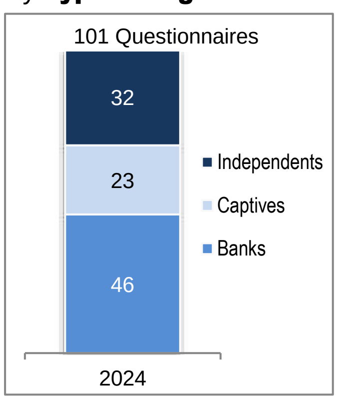
101 questionnaires were used to compile this Survey.

What Information Is Provided in This Survey?

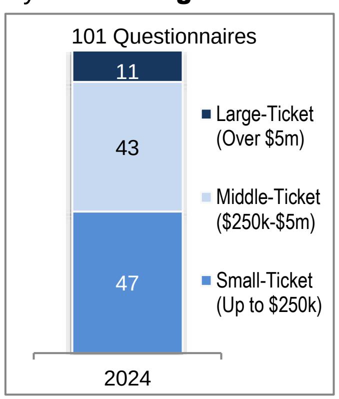
- Financial and Operational Information, covering New Business Volume (NBV), Financial Statements, Collections, Credit, Remarketing, Employee Levels.
- The data represents operations in the **United States** only.
- Respondents are asked to **exclude** dealer floorplan or wholesale financing, real estate 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 68 questions in the Survey. Note that each table shows the number of respondents included in that table.

How Are Respondents Categorized?

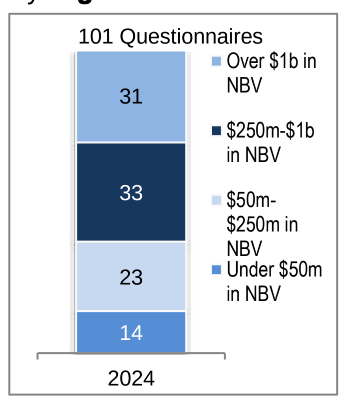
By **Type of Organization**



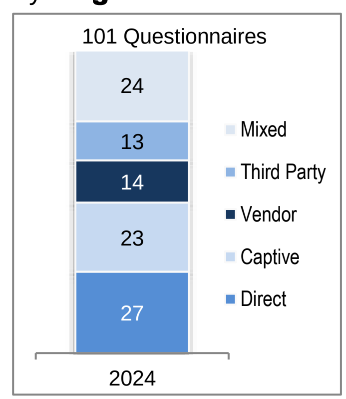
By **Market Segment**



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 2024 Survey of Equipment Finance Activity (SEFA), the premier source of statistical information available on the $1-trillion equipment finance industry. This survey report covers key statistical, financial and operational information for 101 equipment leasing and finance companies.

With more than 2,000 data points and numbering nearly 400 pages, the SEFA provides a wealth of information on the industry unavailable elsewhere. It enables the ability to drill down into the extensive database to identify trends, potential opportunities and trouble spots that may be undetectable from topline data points.

The survey is conducted among ELFA Members, who cover 82.2% of the assets included in the 2024 Monitor 100 report and are representative of the US-based industry. The survey questionnaire asks respondents to provide two years of data ranging from new business volume, financial statement information, to delinquencies, credit approvals, and headcount, among other data. In some sections of the report, trends covering five, 10 or 15 years are shown. These trends show data from previously issued reports and have a different respondent base for each year. More information on respondents is included in the appendix of the survey.

New Business Volume

New business volume (NBV) grew slightly by 1.1% to $147.6 billion in 2023. This was down from 6.3% growth with NBV in 2022. The 2023 growth rate did not keep pace with the U.S. economy's overall inflation rate.

- Banks, which represent the largest market share (56.8%), took a major step back from originations in 2023 with a decrease of 3.3% in NBV. This pullback can largely be attributed to failures at Banks in spring 2023 which led to tightened lending and credit standards.
- Captives and Independents performed well with NBV growth of 6.3% and 10.1% respectively.
- There has been pullback particularly in the transportation sector.
- Middle-ticket similarly had a NBV decrease of 3.5%, reflecting the predominance of Banks in this sector.
- Overall, 54% of SEFA respondents reported that their volume increased, down from 75% the previous year. Only 43.5% of Bank respondents' volume increased, while 60.9% and 62,5% of Captives and Independents saw their volume increase. [Tables 1a, 1b, 1e, 2a.]

Focus on the Balance Sheet

This year's survey indicates that equipment finance companies focused on improving their balance sheets while improving portfolio performance. This suggests that organizations are ready to come back with a strong foundation, managing what they have and taking on good assets. In addition, the Current Expected Credit Loss (CECL) accounting standard has taken effect, and has increase reserves for accounting of expected credit losses instead of incurred losses.

EXECUTIVE SUMMARY *… continued …*

Yield, Funding and Spread

The big jump in lending rates in 2023 masked the increase in Cost of Funds. Looking at five-year trends, with varying respondent bases, the significant change in 2023 is the 162 basis point (bps) jump in Cost of Funds, the second consecutive year with a significant increase. While Pre-Tax Yields increased, it was only by 145 bps in the last year, which was not enough to offset the rise in Cost of Funds. This resulted in a decline in the Pre-Tax Spreads by 18 bps overall. (Table 10a]

NBV by End-User Industries

Overall, Services ($23.4 billion), Agriculture/Forestry/Fishing ($23.1 billion), and Industrial/Manufacturing ($12.0 billion) were the top three end-user industries by NBV. [Table 5a.]

End-user industries with the most positive NBV dollar change from 2022 to 2023 were:

- Agriculture: up 10.4% to $23.1 billion
- Utilities: up 25.9% to $6.2 billion
- Wholesale/Retail: up 15.2% to $8.8 billion

Conversely, end-user industries with the greatest NBV dollar decline from 2022 to 2023 were:

- Finance, Insurance, Real Estate: down 19.8% to $6.6 billion
- Services – Other: down 7.3% to $8.4 billion
- Services – Health: down 10.2% to $5.5 billion

NBV by Equipment Types

Equipment types with the highest year-over-year NBV dollar volume growth from 2022-2023 were:

- Agricultural: up 13.3% to $22.5 billion
- Construction: up 8.7% to $20.4 billion
- Trucks & Trailers: up 8.4% to $20.3 billion

Equipment types showing the most NBV dollar volume declines were:

- Commercial Aircraft: down 26.1% to $3.7 billion
- Software: down 20.2% to $3.4 billion
- Production and Process Control Equipment: down 20.8% to $1.9 billion

EXECUTIVE SUMMARY *... continued ...*

Credit Quality

Overall, portfolios remained strong in 2023 with 98.6% of receivables current or less than 31 days past due, up from 97.7% in 2022. Delinquencies over 30 days were 1.4% in 2023, down from 2.4% in 2022, and gross full-year losses were 0.39%, down from 0.51% the previous year. While still strong, it is noteworthy that net full-year losses were 0.26%, up from 0.21% in 2022, and recoveries declined to 0.13% from 0.29% the year prior. [Tables 20c, 20c.]

Mining/oil & gas extraction continues to be the end-user industry with the most delinquencies with 91.9% current, followed by wood/paper/chemical/plastics with 92.8% current and railroad transportation with 94.8%. [Table20m.]

While the data for delinquencies and charge-offs are within a consistent level of performance, they are at low levels historically. Readers should note that the SEFA has expanded its data reporting with two 15-year history charts of delinquencies and charge-offs [Tables 20a and 20b.] which tell a deeper story of charge-offs.

Workforce

Overall, employment levels declined slightly by 0.47%. Banks' headcount remained flat, Captives' decline 5.4% and Independents' increase 7.6% albeit from a smaller headcount number. [Table 29c.]

Hybrid work continued to be the dominant work location model as 82.7% of organizations had employees working remotely some of the time, of which 16% worked fewer than five days a month in office. These are decreases, however, from the previous year when 90.8% worked remotely some of the time and 35.9% worked fewer than five days a month in office. [Table 29k.]

Use of Electronic Documents

The adoption of electronic documents continues to steadily grow post-pandemic with a new high of 97% of organizations reporting that at least some of their NBV is documented via an electronic document. This is up from 88% in 2022. [Table 15a.]

Clean Energy ITC

The SEFA has expanded its Clean Energy Investment Tax Credit (IEC) program data which reflect governmental influence on new business volume through tax incentives, and reveal the types of programs being financed. While there are currently relatively few SEFA respondents active in this space, and while the number of participants and dollar volume is low and not growing substantially, this is an area to watch in the coming years. Sixteen respondents provided their clean energy NBV information, which was just 4% of their overall NBV. Solar and fuel cells claim the highest market share. [Tables 6d to 6f.]

EXECUTIVE SUMMARY *… continued …*

Credit Applications

Both the number of credit applications booked and funded and the dollar volumes decreased, driven by Banks. In 2023, 77.5% of applications submitted were approved versus 78.5% in 2022. Both Captives and Independents saw an increase in the dollar volume booked and funded. [Table 21a.]

ROA and ROE

Return on Average Assets declined to 1.3% from 1.7% in 2022 driven by a decrease in net income of 17.4% overall. Net adjusted revenues were flat while total expenses increased by 16.9% resulting in the sharp net income decline. Total assets under management increased by 4.7% in 2023, and net earning assets grew by 5.1%.

Return on Average Equity remained at 11.1% in 2023 as it had been in 2022. Income before Taxes as a Percent of Total Revenues also decreased sharply from 33.2% to 26.2% year-over-year. [Table 18a.]

KEY FINDING BY ORGANIZATION TYPE

Banks

- Pullback from banks in 2023 is reflected in a 3.3% decline in NBV to $83.8 billion.
- More than half of respondents (56.5%) said their NBV decreased from the previous year.
- Weighted average cost of funds were up by 160 bps.
- Bank delinquencies over 30 days increased 10 bps and non-accruals increased 10 bps year-over-year.
- For Bank NBV by end-user industry, wholesale/retail was top ranked in dollar volume change at 17.0% and first in total NBV with $8.1 billion. Utilities was second in volume changes up 28.5% and sixth in total NBV of $7.7 billion. Services – arts/entertainment/recreation was third in volume changes of 14.9% and 13th in total NBV of $2.3 billion . [Table 33e.]

Captives

- After flat growth in 2022, Captives' NBV grew 6.3% to $45.0 billion.
- Agriculture was again the top end-user industry with 13% change in dollar volume growth with NBV of $18.2 billion. Telecommunications ranked second with 20.9% in volume growth change with $990k in total NBV. Utilities ranked third in volume growth of 19.5% with $975k in total NBV. Construction ranked second in total NBV ($4.6 billion) but was 10th in volume change that declined by 0.7%. [Table 34e.]

EXECUTIVE SUMMARY *... continued ...*

Independents

- The smallest group in the survey with 12.7% of total NBV again had a double-digit volume gain of 10% growing to $18.8 billion in NBV. [Table 1a.]
- Both Independents and Captives picked up market share increasing by 1.0% and 1.5% respectively.
- Truck transportation was the top end-user industry in NBV with $1.2 billion and 13.7% growth, but ranked 22nd in change in volume declining by 10.7%. Construction ranked first with volume change of 42.8% and third in total NBV of $902k. [Table 35e.]
- Trucks and trailers were the top equipment type for Independents with NBV at $1.7 billion, though volume was down 28.4% year-over-year. [Table 35f.]

PARTICIPANTS

- 101 questionnaires from ELFA members, representing just over 82% of the 2024 Monitor 100 assets.
- A total of 91% of the 101 respondents also participated in last year's survey.
- 46% of respondents are Banks, 32% are Independents, and 23% are Captives.
- By market segment, 47% specialize in small-ticket transactions (up to $250,000), 43% focus on middle-ticket transactions ($250,000 to $5 million), and 11% work principally in the large-ticket segment (over $5 million).
- 31 respondents had NBV over $1 billion in 2023, 33 participants had NBV of $250 million to $1 billion.
23 respondents had NVB bewteen $50 million to $250 million, and 14 respondents had under $50 million in NBV.
- When classifying respondents by origination business model, 27 did business directly, 23 use a captive model. 24 use a mixture of origination channels. 14 primarily use the vendor model, 13 acquire NBV primarily through third parties,

ABOUT THE SURVEY

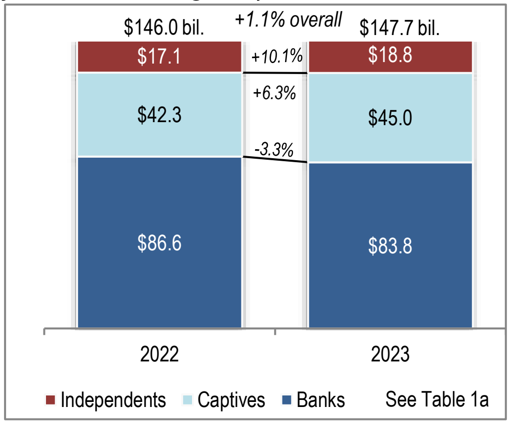
The annual Survey of Equipment Finance Activity is the largest and most important source of statistical information about the equipment finance industry. Participation in the SEFA is a benefit of membership in ELFA. Member-respondents receive a complimentary copy of the survey report. They also receive a free, personalized MySEFA report, an innovative tool that lets respondents track their own operational and performance statistics and quickly and easily compare them against their peers.

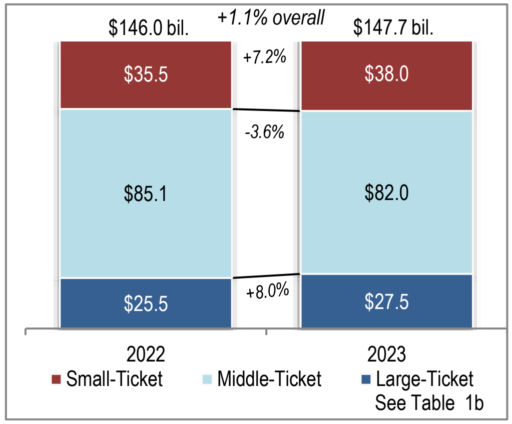
In addition, a selection of key findings are published in the SEFA Interactive Dashboard, a powerful online platform that provides a decade of industry benchmark data. This tool allows users to filter on a small or wide range of years, and the look at the various categories or subcategories to sort their data.

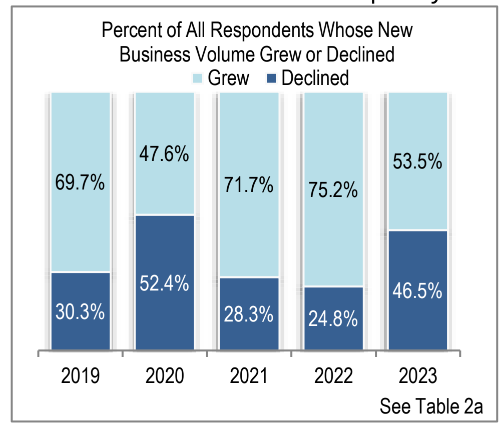
For more information about the report, please visit www.elfaonline.org/SEFA.

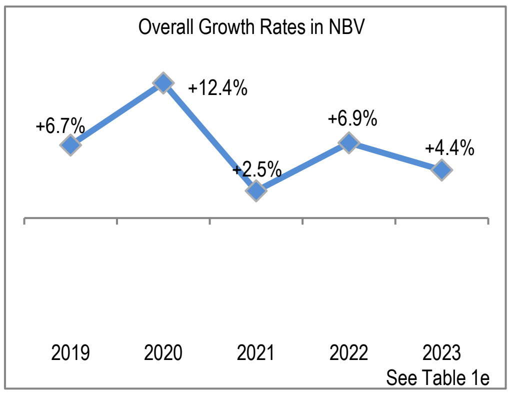
MAJOR FINDINGS

New Business Volume (NBV) **increased only marginally by 1.1%** in 2023 compared to 2022, a growth rate which did not keep pace with the economy's overall inflation rate. Banks, who have the largest market share, actually saw a decline in NBV by 3.3%. The Middle-Ticket had a similar decrease in NBV by 3.6%, reflecting the predominance of Banks here. Only 54% of Respondents saw their NBV grow in 2023 down from 75% the prior year.









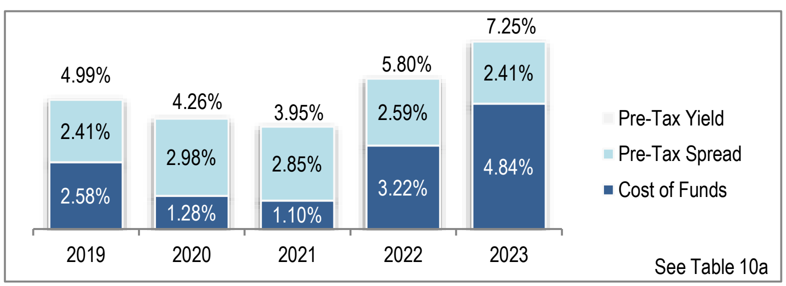
End-User Industries with Most NBV Growth (in $ vol.):
- Agriculture
- Utilities
- Wholesale / Retail

End-User Industries with Greatest NBV Decline (in $ vol.):
- Finance, Insurance, Real Estate
- Services - Other
- Services - Health

Equipment Types with Most NBV Growth (in $ vol.):
- Agriculture
- Construction
- Trucks & Trailers

Equipment Types with Greatest NBV Decline (in $ vol.):
- Aircraft - Corporate
- Software
- Production and Process Control Equipment

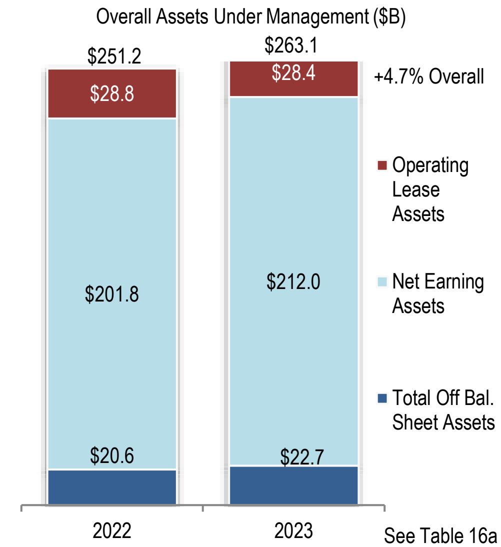
Note that these lists reflect growth and decline rates of respondents who provided two years of data.



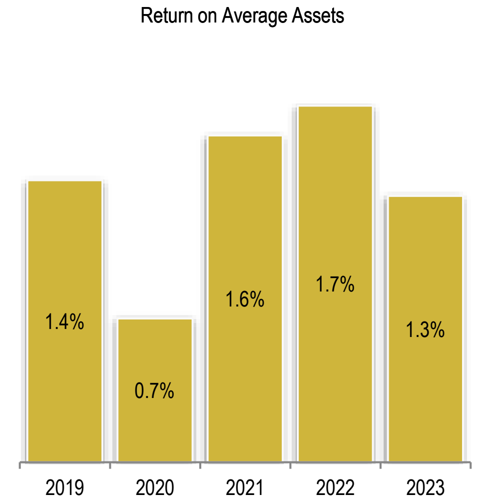
Looking at five-year trends, with varying respondent bases, the significant change in 2023 is the **162 basis points** (bps) **jump in Cost of Funds,** the second year running with a significant increase. While **Pre-Tax Yields** did **increase**, it was only by **145 bps** in the last year, not enough to offset the rise in Cost of Funds. This resulted in a decline in **Pre-Tax Spreads by 17 bps overall.**

MAJOR FINDINGS *… continued …*

Assets Under Management increased by a healthy 4.7% between 2022 and 2023; Net Earning Assets increased by 5.1%. Operating Lease Assets declined by 1.5%, but Total Assets are driven by Net Earning Assets. While assets increased, **Return on Assets decreased** to 1.3% in 2023 from 1.7% in 2022. This is driven by a decrease in Net Income of 17.4% overall. Net Adjusted Revenue was flat, while Total Expenses grew by 16.9%, hence the sharp decrease in Net Income.

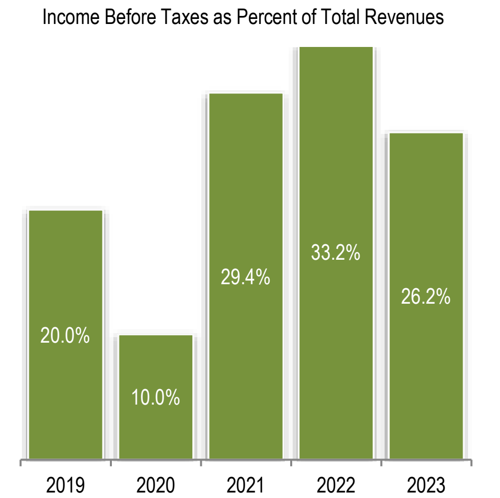


See Table 16a



See Table 18a

Return on Average Equity (ROE) remained at 11.1% in 2023 as it was in 2022. The decrease in Net Income was countered by a modest incrase in Net Worth by 1.0% overall. Income before Taxes as a Percent of Total Revenues decreased sharply to 26.2% in 2023 compared to 33.2% in 2022. Net Adjusted Revenues were flat, just 0.2% lower in 2023 versus 2022 while Total Expenses increased by 16.9%. This drove the the decrease in Net Income. The increase in Total Expense is essentially driven by a sharp increase in Provision for Bad Debt.



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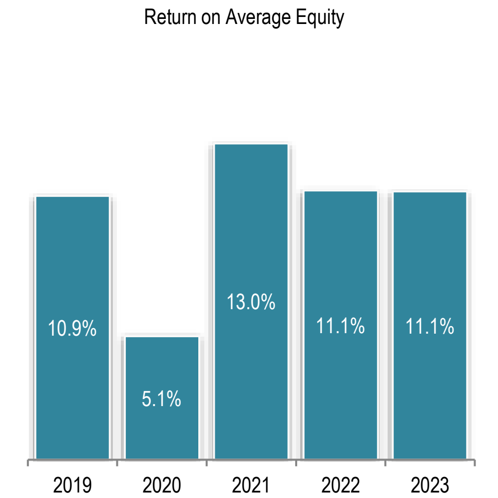
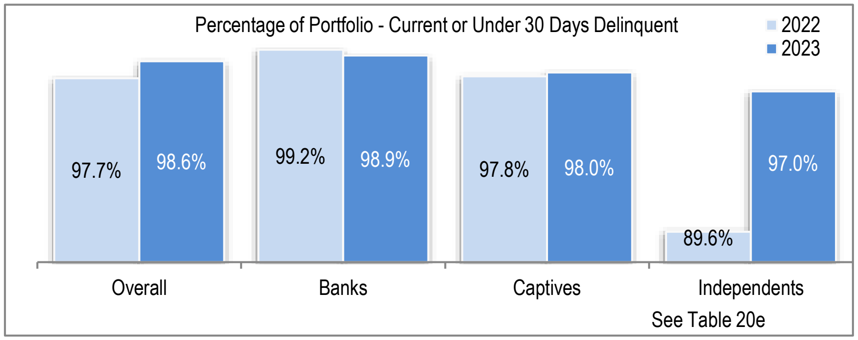


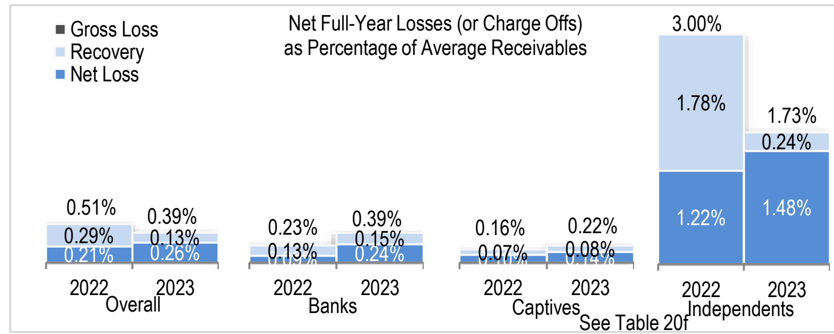
See Table 18a

MAJOR FINDINGS *... continued ...*

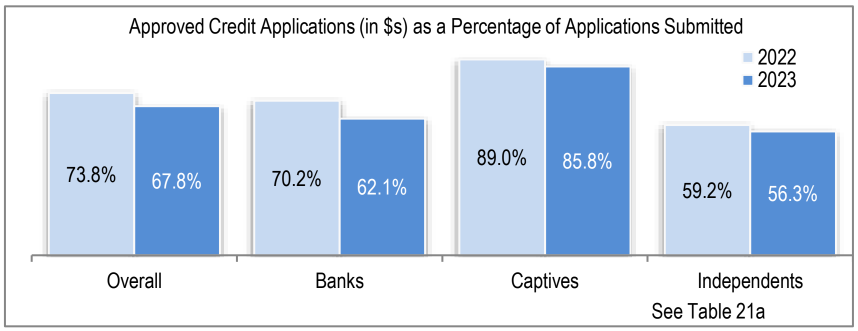
Overall, **Delinquencies declined in** 2023 compared to 2022; 1.4% of receivables are over 30 days past due compared to 2.4% the previous year. Banks have the lowest delinquencies with 1.0% of their overall portfolio over 30 days past due. Delinquencies improved dramatically for Independents. Delinquencies continue to be a significant issue for certain industries, especially Mining/Oil & Gas Extraction and Wood & Paper Manufacturing.

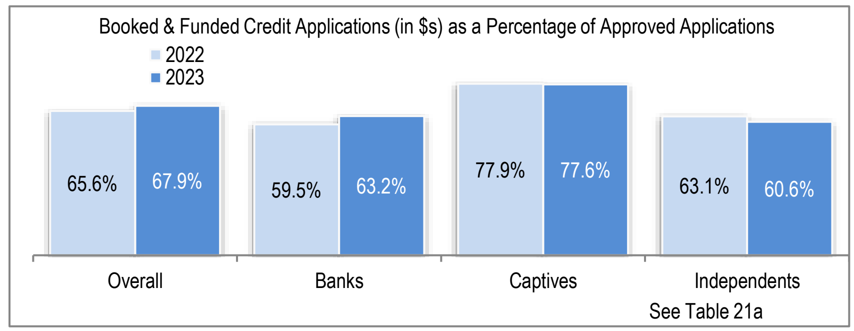
Net Full-Year Losses or Charge-Offs inched up slightly to **0.27% of average receivables in 2023**; Independents saw the highest loss rate.

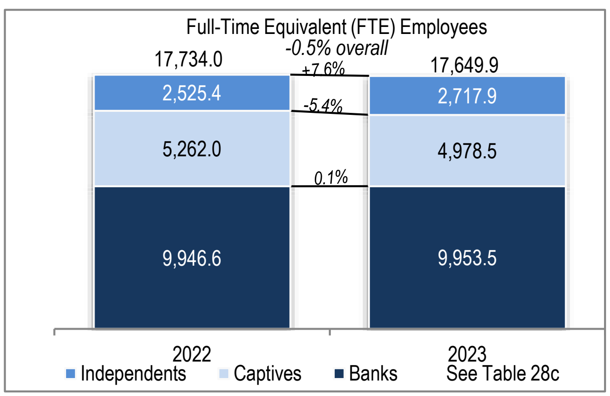




While the dollar volume of Credit Applications increased year-over-year, the **dollar amount of approvals decreased** as did the **volume of deals** booked **and funded**. Though the dollars declined, Banks increased their conversion rate for applications booked and funded while Independents decreased slightly.

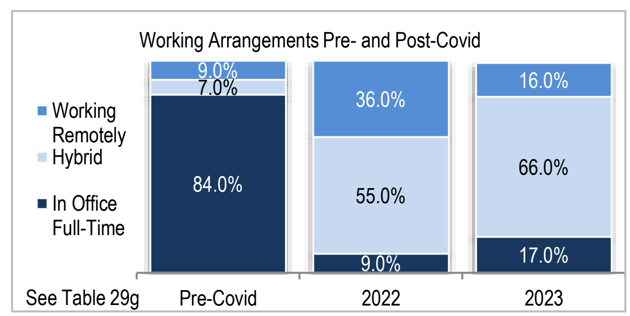






Employment Levels declined slightly by 0.5%, Banks' headcount remained flat. While Independents grew their headcount by 7.6%, is it from a smaller number of headcount. Captives saw a decline of 5.4% of headcount.

Some respondents were willing to share their Covid-related changes in work arrangements since 2020. While Working Remotely declined, that did not translate to an equal increase in working In Office Full-Time. Instead, Hybrid arrangements of work from home and from the office gained even more headcount.



Acknowledgements

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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:
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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:
us_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:
bchoi@elfaonline.org