EQUIPMENT LEASING & FINANCE
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Your Eye On The Future

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U.S. Equipment Finance Market Study 2012-2013
Fact Sheet

Study Objectives

The Equipment Leasing & Finance Foundation (the Foundation) commissioned IHS to conduct comprehensive research on the size and expected growth of the U.S. equipment finance market, a significant contributor to capital formation in the U.S. economy. The study used the same methodology as the Foundation's *2007-2008 U.S. Equipment Finance Market Study* in order to analyze changes and forecast future growth. Both studies were designed to:

- Gain an understanding of the true size and scope of the equipment finance industry
- Uncover opportunities in the larger marketplace
- Determine how equipment acquisition is financed
- Provide insight into the short-term outlook for equipment finance.

Study Methodology

This study utilizes data from a number of sources, including a custom Foundation borrower survey conducted in August and September 2012 among 427 businesses, 372 of which purchased business equipment in 2011. Additional data sources include:

- Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices
- Federal Reserve Flow of Funds
- 2012 *Monitor 100*
- The Equipment Leasing and Finance Association (ELFA) *2012 Survey of Equipment Finance Activity*
- Foundation surveys
- IHS Equipment Market Monitor

Key Findings

Current and Forecasted Overall Equipment Finance Activity:

- In 2011, the total size of private and public investment in equipment and software totaled $1.19 trillion, of which nearly 56% or $664 billion was financed, according to an estimate based on data from IHS and the U.S. Department of Commerce.
- In 2012, total equipment and software investment is expected to reach $1.28 trillion, with total equipment finance volume estimated at 57% or $725 billion. This estimate exceeds the 2007 pre-recessionary peak for equipment finance volume.
- In 2013, of the projected $1.3 trillion to be invested in plant, equipment, and software, 55% ($742 billion) of that investment is expected to be financed through loans, leases, and lines of credit.
- In 2014, the equipment finance market size is projected to grow by $36 billion to $778 billion.
- Research findings suggest the equipment finance market will expand over the next two years; however, the growth rate will slow.
- In 2011, 72% of firms used at least one form of financing (excluding credit card use).
- The share of financing in furniture and fixtures acquisitions has risen dramatically from 40% in 2006 to 83% in 2011. The increase is likely due to a greater propensity to bundle furniture and fixtures purchases as well as additional "soft costs" such as delivery, warranty, etc., with other financed assets.

- Business investment spending for equipment and software is expected to slow over the 2013 and 2014 period. Despite pockets of strength, overall finance volume is not expected to keep pace with total investment during this period. Sometime during 2014, as business uncertainties begin to wane and the prospect of higher interest rates looms, larger firms may be inclined to draw on their cash reserves to acquire equipment. This adjustment would contribute to finance volume growth trailing the overall growth in equipment investment.

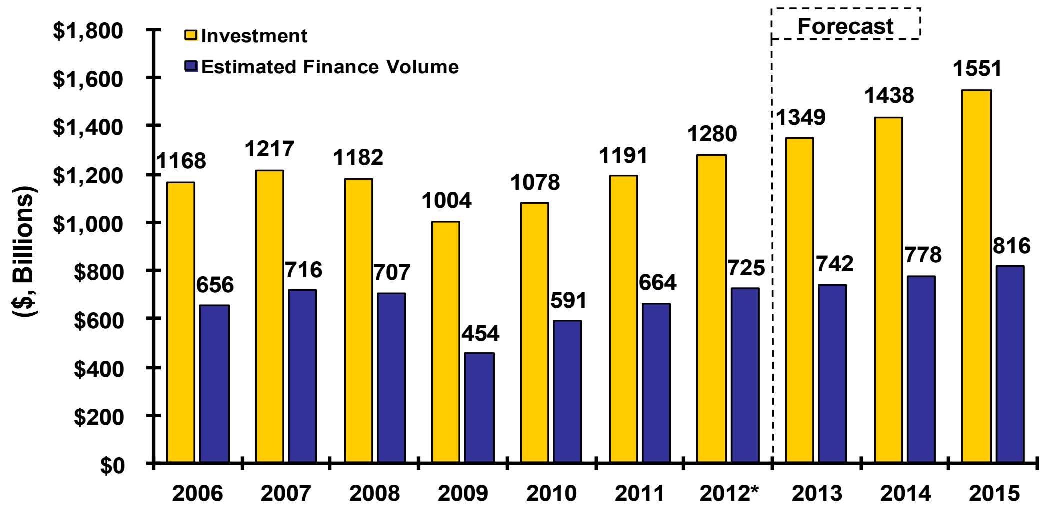
By Company Size/Revenues:

- Corporate perceptions of the economic outlook are the primary driver behind business investment decisions. Small companies have the greatest degree of concern about general economic conditions.
- In the next 12 months, 30% of companies anticipate increasing their equipment investment. This group of companies is disproportionately represented by large companies.
- Companies with less than $1 million in revenues used financing in only 49% of their equipment acquisitions, while companies with revenues of $25 million to $100 million used financing in 86% of their acquisitions, according to the 2012 Foundation survey.
- Companies with sales from $25 million to $100 million doubled their share of leasing volume from 2006 to 2011. Companies with less than 51 employees also doubled their share of equipment acquisition via leasing in this time period.
- Larger companies are more concerned with the pending elimination of off-balance sheet financing. This may be due to large companies having a greater propensity to make large-ticket acquisitions that are often financed through off-balance sheet structures.
- The share of cash payments declined for large companies from 2007 to 2012 as larger companies enjoy greater access to credit markets.
- In the 12 months following the Foundation survey, 30% of companies anticipate increasing their equipment investment. This group of companies is disproportionately represented by large companies.
- The three biggest equipment categories that large companies finance are communication equipment, computer equipment, and software, which together accounted for nearly 65% of the large companies' total financing volume in 2011.
- Both the 2012 and 2007 Foundation studies confirm that larger ticket purchases are financed to a greater degree than smaller ticket purchases.
- The share of cash payments declined for large companies from 2007 to 2012, according to Foundation surveys, as larger companies have enjoyed greater access to credit markets.
- In 2013 and 2014, small businesses, which represent more than half of the volume of equipment finance, are expected to curtail spending.

By Equipment Finance Sector:

- Bank financing dominated the market, according to the 2012 Foundation borrower survey, and increased its share of the market relative to the 2007 borrower survey. This increase in share reflects banks' low cost of funds, which provides organic growth, as well as the acquisition of smaller finance companies.
- Banks were the primary lenders across all equipment types in 2011, with the smallest penetration in trucks and trailers.
- Medical equipment financing shows a significant shift from manufacturers to banks from 2006 to 2011.
- Between 2006 and 2011, banks actively moved their new financing volume to companies with lower risk profiles. The share of bank financing of highly profitable companies rose from 26% to 47% between 2006 and 2011, while the share of bank lending to unprofitable companies declined from 65% to 53%.

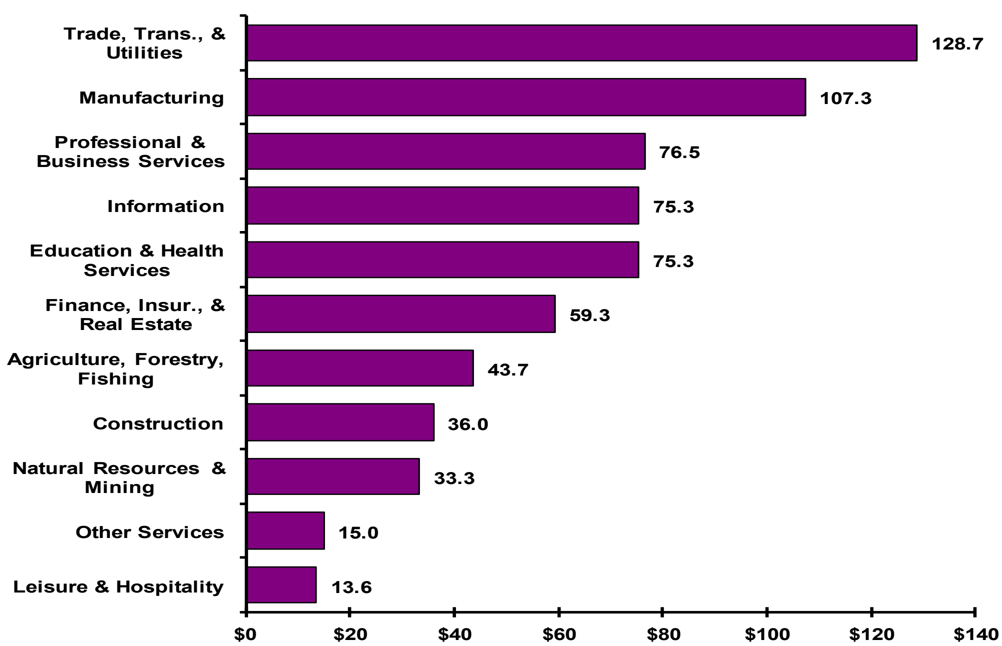
Public and Private Investment in Equipment and Software



* Estimated on partial-year data

Source: U.S. Department of Commerce Bureau of Economic Analysis and IHS

U.S. Equipment Finance by End-User Industry in 2011, $Billions



Source: IHS

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About the Foundation

The Equipment Leasing & Finance Foundation is a 501c3 non-profit organization that provides vision for the equipment leasing and finance industry through future-focused information and research. Primarily funded through donations, the Foundation is the only organization dedicated to future-oriented, in-depth, independent research for the leasing industry. Visit the Foundation online at www.LeaseFoundation.org and follow us on Twitter @LeaseFoundation.

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