There were signs of strength last year in the merger and acquisition market for equipment leasing and finance companies after very little activity in 2011. Still, the uncertain U.S. economic outlook likely led to some potential acquirers delaying acquisition plans. Total U.S. merger and acquisition activity was flat in 2012 when compared to 2011, as was M&A activity in the financial services sector. In this article I will review last year’s M&A activity for equipment leasing and finance companies and discuss the prospects for 2013. Based on what The Alta Group is hearing from a sizable universe of potential buyers and sellers that we monitor, the outlook for 2013 is somewhat promising.

Flurry of Activity — Will Early M&A Interest Carry Throughout 2013?

BY BRUCE KROPSCCHOT

In his analysis of the M&A market for equipment leasing companies, Bruce Kropschot notes that after a flat 2012, this year began with a flurry of activity — with acquisition announcements from Ervin Leasing, International Lease Finance and SeaCube Container Leasing. Based on what The Alta Group is hearing from a sizable universe of potential buyers and sellers that we monitor, the outlook for 2013 is somewhat promising.

A Review of 2012 M&A Activity

The following are some of the notable acquisitions of equipment leasing and finance companies that were completed in 2012:

<table>
<thead>
<tr>
<th>DATE</th>
<th>ACQUIRED COMPANY</th>
<th>ACQUIRER</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAN 2012</td>
<td>Marquette Equipment Finance</td>
<td>Pacific Western Bank</td>
</tr>
<tr>
<td>APR 2012</td>
<td>First American Equipment Finance</td>
<td>City National Bank</td>
</tr>
<tr>
<td>NOV 2012</td>
<td>Equilease Financial Services</td>
<td>Colford Capital</td>
</tr>
<tr>
<td>NOV 2012</td>
<td>CoActiv Capital Partners</td>
<td>Element Financial</td>
</tr>
<tr>
<td>DEC 2012</td>
<td>Celtic Leasing Corp.</td>
<td>MB Financial Bank</td>
</tr>
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The Alta Group sees banks as continuing to be the most aggressive acquirers of leasing companies, with their lower cost of funds and higher leverage enabling them to improve the profitability of an acquired company.
The year 2013 is beginning with a flurry of M&A activity. Ervin Leasing Company was acquired by Ann Arbor Bank in January 2013. American International Group (AIG) announced in December 2012 that it had entered into an agreement to sell 90% of International Lease Finance Corp. (ILFC) to a Chinese investor group, with the closing expected in the second quarter of this year. Also, publicly-owned SeaCube Container Leasing announced in January that it had agreed to be acquired by Ontario Teachers’ Pension Plan with closing of the transaction expected to be completed in the first half of 2013.

A variety of motives influenced the sellers of these companies. First American, Equilease and Celtic were owned by their management. It is usually just a matter of time before management-owned leasing companies are available for sale. Individual owners likely have a major portion of their personal net worths tied up in their leasing company, and they eventually feel the need to diversify their assets. In 2012, some management-owned companies could have been more receptive to selling because of the anticipation of higher capital gains tax rates in 2013. Also, by being acquired, independent leasing companies can generally improve their competitive position by reducing their borrowing costs and increasing their capital availability.

When the acquisition of First American was announced, CEO Bill Verhelle cited these factors, saying: “We’re very pleased to have found such a great partner in City National. Joining forces with the nation’s 26th largest bank will allow us to provide clients with even better service and support. It also will give us better capital access, lower-cost funding and many of the other resources we need to continue our strong growth trajectory.”

Corporate owners often sell their equipment leasing and finance subsidiaries for reasons unrelated to the performance of the leasing company. Marquette Equipment Finance was available for sale due to regulatory issues at its parent bank. CoActiv was sold because of a change in its Japanese parent company’s business strategy. Ervin Leasing had financing constraints and did not fit into the long range plans of its parent, a manufacturing company. ILFC’s parent AIG, after its successful federal bail-out, decided to concentrate on its insurance businesses. As a public company, SeaCube had an obligation to maximize shareholder value, and this resulted in the agreement to sell the company.

The types of leasing companies being sold recently range from small-ticket lessors Equilease, CoActiv and Ervin to one of the world’s leading lessors of commercial aircraft, ILFC, and one of the world’s leading lessors of containers, SeaCube. Marquette, First American and Celtic are mid-ticket leasing companies, with First American being ranked as the tenth largest independent leasing company in the 2012 Monitor rankings.

Continuing a trend, the acquirers of four of these leasing companies are commercial banks. Element Financial is a rapidly growing Canadian equipment leasing company that entered the U.S. market by acquiring CoActiv, and Colford Capital, a holding company controlled by a private equity firm, expanded its diversified specialty finance business by acquiring Equilease.

Several banks formed new equipment leasing and finance businesses in 2012 by hiring teams of people who had worked together for other organizations. Signature Bank entered the specialty finance business by forming a new unit. Signature Financial, headed by Walter Rabin, who left Capital One’s All Points Capital subsidiary with a number of his colleagues. Cole Taylor Bank, a subsidiary of Taylor Capital Group, launched Cole Taylor Equipment Finance by hiring Ed Dahlka and other leasing industry veterans who had worked for him at LaSalle National Leasing. Also in 2012, the U.S. subsidiary of the large Spanish bank, BBVA, formed BBVA Compass Equipment Finance through the hiring of Mark Marinik and a team of leasing professionals who had worked for him at Charter One Bank.

M&A Outlook For 2013

The year 2013 has gotten off to a promising start for mergers and acquisitions. Two blockbuster deals have recently been announced — the plans to take Dell private and the proposed acquisition of Heinz. Also, the planned sale of ILFC would be one of the largest leasing company acquisitions ever.

M&A activity in 2013 will, as usual, be heavily influenced by economic factors and business confidence levels. However, the overall M&A market in the U.S. should be helped by the following positive influences:

• Near record stock prices and improving price/earnings multiples of publicly owned buyers
• Historically low interest rates
• Substantial liquidity on the balance sheets of banks and corporations
• Capital held by private equity firms that needs to be deployed
• A slowly improving economy

The above factors could bode well for the valuation of equipment leasing companies, and valuation levels have an important bearing on the number of independent leasing company owners that are receptive to selling their businesses. An improving economy in 2013 should be positive for capital investment, providing a boost to equipment leasing and finance origination volume. Coupled with the more competitive interest rates available in the strengthening capital markets and a continuing low level of credit losses, profitability of top-performing independent leasing companies is likely to be at attractive levels.

The Alta Group sees banks as continuing to be the most aggressive acquirers of leasing companies, with their lower cost of funds and higher leverage enabling them to improve the profitability of an acquired company. Many banks have seen a substantial reduction in loan demand from their traditional markets, and equipment leasing has the potential of providing a bank with an asset-generating business with higher returns on assets and equity than alternative lending markets.

Private equity firms greatly increased their investments in financial service companies in 2012. While private equity investment in equip-
ment leasing has not been great, we are seeing receptivity from a number of private equity firms in looking at equipment leasing acquisition candidates that may not currently fit the acquisition parameters of banks.

Despite a number of positive influences, there are some continuing factors that will likely have a dampening effect on the number of leasing company M&A transactions in 2013. There is a very limited number of sizable independent equipment leasing and finance companies that will be attractive to acquirers. Also, the price expectations of some potential sellers may be higher than buyers are willing to pay. Although our experience has been that buyers are willing to pay substantial premiums for exceptional companies that have solid growth opportunities and strong management teams, many companies that would like to sell do not fit into this category. Some banks may be cautious in making leasing company acquisitions due to concerns about changing regulatory capital requirements. Also, some potential leasing company acquirers have concerns about the impact the proposed new lease accounting rules will have on the equipment leasing business.

The Alta Group has seen increased interest from potential acquirers in the past six months. Interest continues to be high in the vendor leasing sector and in the healthcare equipment leasing market. Some banks are seeking to add to their existing leasing activities new markets and capabilities through acquisitions or through the lift-out of management teams from other organizations. Also, a number of diversified financial service companies have identified areas of acquisition interest. Although few private equity firms have invested in the equipment leasing market, some private equity firms continue to look at acquisition and investment candidates, and we expect to see additional private equity investments in leasing companies.

Several equipment leasing and finance companies are currently being marketed for sale, and other companies are making preparations for an eventual sale. With improving business conditions and the indications that The Alta Group is getting from potential acquirers, we expect that a number of interested acquirers and sellers will be able to satisfy their objectives in 2013.

BRUCE KROPSCHOT is senior managing director of The Alta Group and heads the firm’s merger and acquisition advisory practice. Alta executives have arranged the sale of more than 200 equipment leasing and finance companies in the United States and several other countries. In addition to representing buyers and sellers of leasing companies, Alta’s M&A advisory practice arranges the sale of lease portfolios, assists leasing companies in obtaining debt and equity capital, performs business valuations and provides acquisition due diligence support. Kropschot has been active in the equipment leasing industry since 1972, serving as a senior executive with three large leasing companies and providing M&A advisory services for 27 years.