2022 EQUIPMENT LEASING & FINANCE INDUSTRY HORIZON REPORT

EQUIPMENT LEASING & FINANCE FOUNDATION

Your Eye on the Future

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Your Eye on the Future

Established in 1989, the Equipment Leasing & Finance Foundation is a 501c3 non-profit organization dedicated to inspiring thoughtful innovation and contributing to the betterment of the equipment leasing and finance industry. The Foundation accomplishes its mission through development of future-focused studies and reports identifying critical issues that could impact the industry.

Foundation research is independent, predictive, and peer-reviewed by industry experts. It is funded solely through contributions. Contributions to the Foundation are tax-deductible. Support the Foundation by making a 100% tax-deductible gift today at **www.LeaseFoundation.org**.

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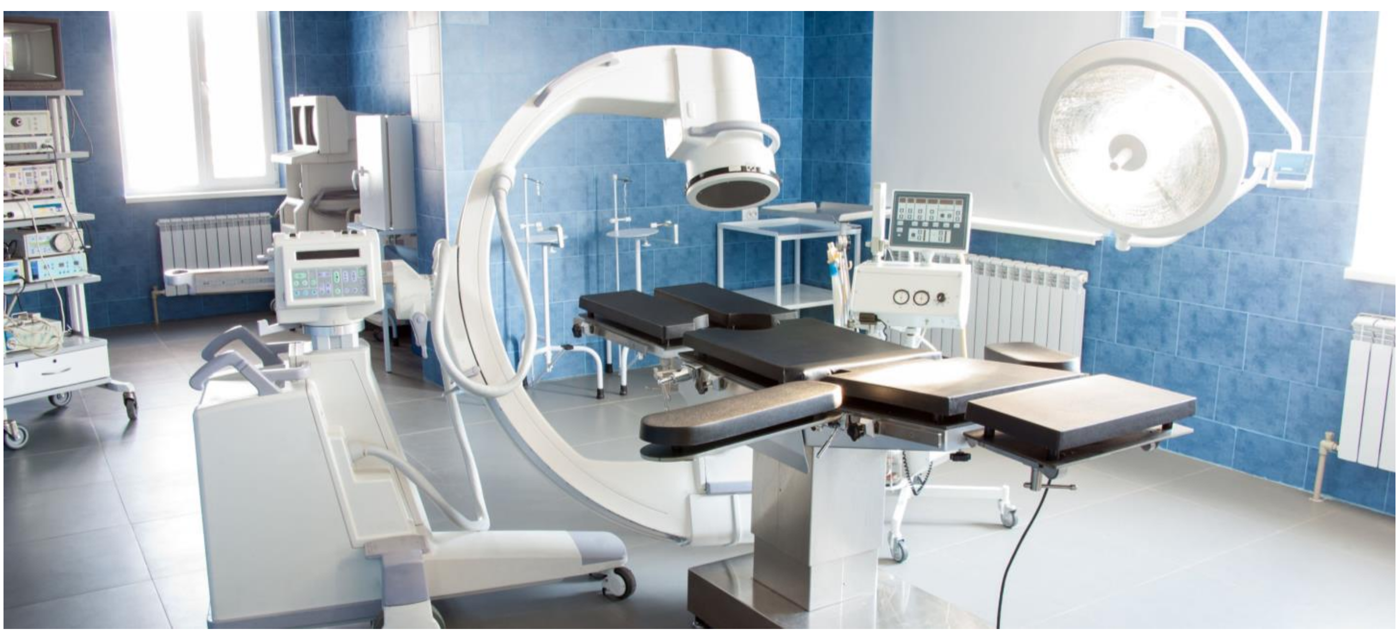


OVERVIEW

Message from the Chair

The Equipment Leasing & Finance Foundation is pleased to present the 2022 Equipment Leasing & Finance Industry Horizon Report. The Horizon Report is part of a suite of Foundation-developed research products that provide tailored economic and industry insights relevant to business leaders and decision makers.

This year's Horizon Report focuses on the Foundation's survey of equipment end-users, which was conducted this summer for the first time since 2019. The survey provides data that allows the Foundation, with assistance from Keybridge, to estimate the current size of the equipment finance industry, assess the propensity to finance private sector equipment investment for key equipment verticals, and forecast end-user plans to acquire and finance equipment over the next 12 months.

As the economy bounced back last year and businesses responded to robust consumer demand by aggressively investing in equipment and software, the end-user survey proves once again that the equipment finance industry is a crucial channel through which these investments occur. The industry expanded to a new all-time high of $1.16 trillion (eclipsing the $1 trillion mark for only the second time) as nearly 8 in 10 end-users used some form of financing to fund their equipment and software acquisitions.

This year, the Foundation added several questions to the survey that allow us to include new detail regarding the nature of lending, such as whether equipment and software end-users relied on their primary bank or a secondary bank to finance their acquisitions and the extent to which they work with fintech lenders versus conventional banks, captives, and independents. Additionally, the survey incorporated questions that pertain to post-pandemic developments, including the extent to which remote or hybrid work, high labor costs and low labor availability, and high inflation are expected to impact equipment and software acquisition plans next year.

We hope you enjoy the 2022 Industry Horizon Report and the Foundation's many other research publications.

Nancy Pistorio

Chair, Equipment Leasing & Finance Foundation, October 2022

Executive Summary

After a historically deep but thankfully brief recession in 2020, the U.S. economy bounced back in 2021, and business investment was a substantial driver of the rebound. On a nominal basis, equipment and software investment expanded 12.0% in 2021 after falling by nearly 4% in 2020, representing the strongest year of growth this century. With interest rates historically low, many firms chose to finance their equipment and software acquisitions, leading to similarly strong growth in the equipment finance industry. The Equipment Leasing & Finance Foundation's (Foundation) estimate for the size of the equipment finance industry rose to an all-time high of $1.16 trillion in 2021, as nearly 80% of firms who acquired equipment or software in 2021 used at least one form of financing to do so. The Foundation estimates that approximately 57% of total public and private sector equipment and software investments are procured via a secured loan, lease, or line of credit — just below the long-term average of 59% and significantly higher than the 51% average from 2018–2020.

Looking ahead, this year's survey revealed that 70% of equipment end-users anticipate a U.S. economic recession in 2022 or 2023. In a typical business cycle, businesses tend to pare back on investment plans when a downturn is expected, and while there is evidence that this may be already occurring, the end-user survey provides some optimism for the industry's future. For example, nearly two-thirds of businesses indicated that all else equal, they are more likely to invest in equipment and software in a post-pandemic environment, compared to just 12% who are less likely to do so. Similarly, the survey suggests that businesses are likely to depend more on equipment and software investment in light of reduced labor availability and rising labor costs. In addition to driving industry growth, these investments should, over time, increase economic productivity, reduce inflation, and benefit U.S. consumers and businesses alike.

Key findings from the 2022 Equipment Leasing & Finance Industry Horizon Report include:

- Equipment and software investment was historically strong in 2021, expanding by 12.0% to $2.0 trillion in nominal terms. Based on responses to the Foundation's end-user survey and analysis by Keybridge, 57.3% of this investment (and 61.8% of private sector investment) was financed, yielding an industry sizing estimate of about $1.16 trillion.

- According to the end-user survey (which focused solely on private sector investment), the most common payment method used by businesses to acquire equipment and software in 2021 was leasing (26%), followed by secured loans (19%), and lines of credit (17%). Among non-financed acquisitions, cash (19%) and paid-in-full credit card purchases (19%) comprised similar shares.

- The end-user survey also revealed that 79.3% of respondents who acquired equipment or software in 2021 used at least one form of financing to do so (i.e., lease, secured loan, or line of credit). This is nearly identical to the Foundation's estimate for 2018, which was based on the 2019 end-user survey.

- Of the 13 equipment verticals for which a sufficient number of responses were collected to produce statistically viable results, Medical Equipment was the most likely to be financed, with an estimated 75% of acquisition volume secured through a lease, loan, or line of credit. Other verticals with relatively high financing activity include Other Industrial Equipment (69%) and Construction Machinery (67%). Software (57%) was the least likely to be financed in 2021, followed by Automobiles (58%) and Mining and Oilfield Machinery (59%).

- Of the six end-user industries for which a sufficient number of responses were collected, Professional Services firms were most likely to use financing (70%), followed by Construction (67%), and Health Care (64%) businesses. In all six industries, leasing remains the most popular method of finance used, with secured loans being the second-preferred option in most cases. More generally, service-sector firms and goods-sector firms had nearly identical propensities to finance (62% vs. 61%), though goods-sector firms were slightly more reliant on leases and slightly less reliant on secured loans compared to service-sector firms.

- Whether measured by sales revenue or the number of employees, small firms are generally less reliant on financing methods when acquiring equipment or software. Regarding sales revenue, the propensity to finance ranged from 56–65% across most revenue brackets, but in the two smallest sales brackets (i.e., less than $250,000 and $250,000 – $1 million) it was just 30% and 41%, respectively. Similarly, firms with less than 20 employees were far less dependent on traditional financing methods than mid-size and large firms, choosing instead to rely heavily on credit cards. Firms with 50+ employees financed the majority of their equipment and software acquisitions.

- As in previous years, banks were the biggest player in the equipment finance industry in 2021, as 53% of equipment and software financing volume came from bank lenders. Of this amount, roughly two-thirds were attributed to the end-user's primary bank and the remaining one-third to a secondary bank. Meanwhile, manufacturers and vendors were responsible for 17% of financing volume, independents comprised 14% of volume, and fintechs comprised an additional 14%.

- Businesses that financed their equipment and software acquisitions were equally likely to cite "protection from equipment obsolescence" (64%), "tax advantages" (64%), and "optimization of cash flow" (62%) as the primary reasons for doing so. Compared to the 2019 survey, end-users were significantly more likely to cite each of these reasons this year, suggesting that businesses are increasingly viewing financing as an important tool to help firms gain access to the most up-to-date equipment and technology.

- A plurality of respondents expects the volume of their equipment and software acquisitions to remain the same over the next 12 months (43%), while a roughly equal percentage expect their acquisitions will increase (30%) vs. decrease (26%). The most commonly selected equipment investment verticals among end-users who plan to boost their equipment and software acquisition were Computers (43%), Software (38%), Office Equipment (36%), and Communications Equipment (28%), underscoring the importance of these verticals to business operations in a post-pandemic environment. Of those who expect acquisitions to increase, a sizeable majority (69%) expect to use a financing method to cover at least a portion of the cost.

- A variety of factors were cited as reasons for financing additional equipment over the next 12 months. The most frequently cited factor was "technology advancements and/or obsolescence" (31%), followed by "increased prevalence of remote or hybrid work" (28%), "inflation" (26%), and "trajectory of pandemic and impact on demand or operations" (24%). This year's survey suggests that equipment and software end-users are thinking more about inflation, the Fed's response to it, and implications for their business strategy.

END-USER SURVEY

Sizing the Market for Equipment Finance

Over the last decade, the Foundation has commissioned several surveys of equipment end-users to evaluate the size and expected growth of the equipment finance industry. The first survey was conducted in 2007 and estimated the industry's size at nearly $600 billion, or 55% of total equipment and software investment. Subsequent end-user surveys have found that the industry has grown substantially since the end of the Great Recession, hovering around $1 trillion since 2015.

In 2018 and 2019, Keybridge worked with the Foundation to update the end-user survey and develop additional breakdowns on equipment verticals to match the verticals tracked by the Foundation-Keybridge Equipment and Software Investment Momentum Monitor. After pausing the end-user survey in 2020 and 2021, we restarted the effort this year, surveying over 600 businesses that acquired equipment or software in 2021.

The survey, which was implemented in partnership with Concentrix, was completed by respondents who self-identified as a CEO, CFO, COO, or another company official knowledgeable about company expenditures and how those expenditures are funded. Respondents reflect a diverse mix of small, medium, and large firms across a range of industries with varying equipment needs, providing a reliable snapshot of overall equipment acquisition trends.

The survey, which was conducted electronically, was in the field from May 16th – June 8th, 2022. Questions were focused on equipment and software acquisitions that occurred in the calendar year 2021 and investment plans over the subsequent 12 months.

Estimating the Size of the Equipment Finance Industry

Equipment and software investment growth in 2021 was historically strong. After a weak year in 2020 in which nominal investment fell by nearly 4% due to the pandemic-triggered recession, equipment end-users were in an expansionary mood last year and invested in equipment and software at a pace not seen in at least two decades. Overall, nominal investment grew by 12.0% in 2021 (12.8% in the private sector and 6.5% in the public sector) according to the U.S. Department of Commerce.[i] This robust growth was driven by several factors, including a rapidly recovering labor market, increased consumer demand triggered by unprecedented federal support in 2020 and early 2021, low interest rates, and relaxed business operating restrictions after the COVID-19 vaccine became widely available. In addition, the pandemic led some businesses to transition to a remote or hybrid work environment and others to emphasize online sales — both of which encouraged additional investment in computers, software, and communications equipment.

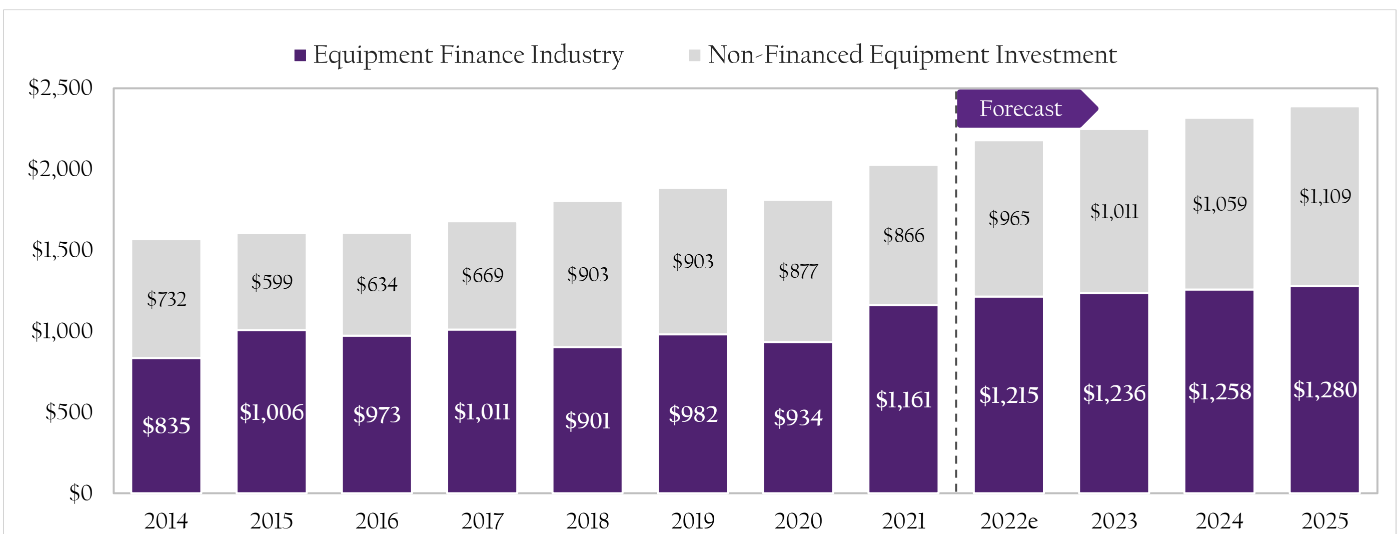
The 2022 end-user survey revealed that 61.8% of private-sector equipment and software investment was financed using leases, secured loans, or lines of credit in 2021. Combined with Keybridge's estimate of public-sector equipment financing activity, the overall share of 2021 equipment and software investment that was financed (i.e., the "propensity to finance") is estimated to be 57.3%. This share is just below the long-term average of 58.7% but significantly higher than the 51.2% average from 2018 – 2020.

The increase in the propensity to finance captured by the 2022 end-user survey reflects a variety of factors. For example:

- The Federal Reserve quickly lowered the federal funds rate to zero at the onset of the pandemic and kept it there throughout 2021 to encourage investment and drive the labor market recovery. All else equal, lower interest rates lead to lower financing costs, which makes financing more attractive when businesses invest in equipment or software. It is worth noting that the propensity to finance may fall in 2022 for similar reasons as the Fed raises rates to combat high inflation.
- As part of the end-user survey, the Foundation asks business leaders who chose to finance an equipment or software acquisition to indicate why they did so. In this year's survey, nearly two-thirds of respondents indicated "protection from equipment obsolescence" (64%), "tax advantages" (64%), and "optimization of cash flow / maintain cash reserves" (62%) influenced their financing decision. These figures are significantly higher than in the 2019 survey, where each of these factors was selected by less than half of respondents. It is possible that operating during the pandemic increased businesses' attention to the importance of cash flow and underscored the importance of staying nimble when acquiring equipment or software.

Given that both the overall amount of equipment and software investment and the propensity to finance that investment each increased, it is no surprise that the size of the equipment finance industry increased substantially last year. As illustrated in Figure 1, the Foundation estimates that $1.16 trillion in equipment and software investment was financed in 2021 — the highest total on record and the first year the industry was eclipsed the $1 trillion mark since 2017. The survey also found that 79.3% of firms that acquired equipment or software in 2021 used at least one form of financing to do so. This result suggests that most businesses take advantage of the flexibility financing offers.

Figure 1: Equipment Finance Industry Size, 2014–2025, Billions of Dollars



Sources: BEA; Foundation end-user surveys; Keybridge LLC. Note: The generic term "equipment finance" is used to denote public and private equipment and software acquired via lease, secured loan, or line of credit. Non-financed equipment is acquired through cash, credit card (paid in full), or another method.

The 2015, 2017, 2018, and 2021 equipment finance estimates are based on surveys of equipment end-users conducted in 2016, 2018, 2019, and 2022. To estimate the industry's size in the remaining years, Keybridge relies on two principal components: total private equipment and software investment, and the propensity to finance those investments.

- Equipment and software investment is reported on a quarterly basis by the U.S. Bureau of Economic Analysis (BEA). Estimates are subject to regular revisions, which may cause the historical estimates presented in Figure 1 above to differ slightly from prior years' reports.
- The propensity to finance is estimated using a Keybridge-constructed index called the Propensity to Finance Equipment Index (PFEI). The PFEI is a composite of two separate measures: (1) the ratio of the share of commercial and industrial (C&I) loans that go towards equipment purchases vs. total nominal equipment and software investment, and (2) a trend comparison of new business volume as measured by ELFA's Monthly Leasing and Finance Index (MLFI-25) vs. total nominal equipment and software investment. Both measures are converted to an index and then combined to yield the final PFEI. An adjustment factor is also applied to account for the reality that public sector equipment and software acquisitions (which comprise roughly 10% of overall investment) are less likely to be financed than private sector acquisitions.

A Note on Industry Sizing

Estimating the size of the equipment finance industry is a complicated task, and over the years a variety of methods have been used to produce different measurements that offer various insights into industry size. For example:

- **MLFI-25**: Since 2001, ELFA has conducted a monthly survey of select Association members to produce the Monthly Leasing and Finance Index, or MLFI-25. This index reflects the economic activity of 25 companies representing a cross section of the equipment finance industry and includes data on new business volume, portfolio performance, and other measures. However, while the MLFI-25 offers a useful summary view of industry performance compared to prior years (e.g., annual growth rates), it does not attempt to estimate the industry's overall size.
- **SEFA**: Another ELFA survey, the annual Survey of Equipment Finance Activity (SEFA), provides a more comprehensive picture of the industry than the MLFI-25. The SEFA offers detailed data on a variety of industry performance indicators for banks, captives, and independents using data from more than 100 equipment finance firms (the typical response rate is around 30% of ELFA member companies). However, SEFA data are not extrapolated to produce industry-wide projections, which results in an underestimate of the true size of the industry. Moreover, because the SEFA is focused on equipment finance industry members, it likely does not fully account for equipment acquisitions that are financed under more generic forms of credit, such as commercial and industry (C&I) loans or non-descript lines of credit.
- **End-User Survey**: In some years (including this year), the Foundation conducts a survey of equipment and software end-users to estimate the volume of leased and financed equipment by industry, business size, asset class, profitability, and other differentiators. This survey facilitates the calculation of an overall "propensity to finance" figure that, when applied to BEA data on overall equipment and software investment, produces a comprehensive estimate of the industry's size.

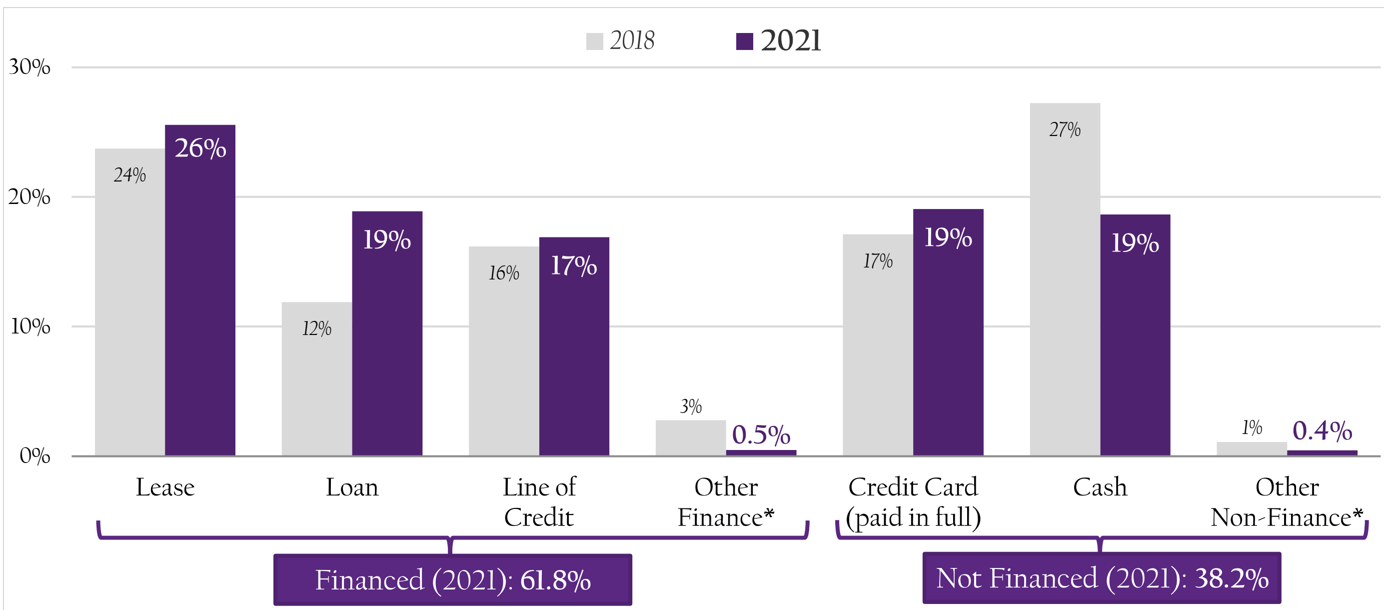
Of the three methods described above, the Foundation believes that the most recent edition of the end-user survey provides the most reliable estimate. As such, Figure 1 represents the Foundation's "official" estimate and forecast of equipment leasing and finance activity from 2014 – 2025.

Looking ahead, the industry sizing forecast for 2022–2025 presented in Figure 1 suggests that the industry will continue to slowly expand. However, it is important to note that while the 2022 projection is based on the current PFEI reading and the Foundation's forecasts for equipment and software investment published in its quarterly Equipment Leasing & Finance U.S. Economic Outlook series, the projections for 2023–2025 rely solely on historical investment and financing trends that have occurred since 2005. As such, they are likely to be overly optimistic if the economy slides into recession in the next 12–18 months. In December 2022, the Foundation will publish its 2023 U.S. Economic Outlook, which will contain an annual forecast for equipment and software investment in 2023 — and, by extension, provide an early indication of whether the industry's growth rate will ultimately exceed or fall short of historical trends.

A Closer Look at Methods of Finance

According to surveyed equipment end-users, the most common financing method used by private businesses to acquire equipment and software in 2021 continues to be leasing, with more than one-quarter of purchase volume (26%) acquired via lease (see Figure 2). This share is slightly higher than the Foundation's estimate for leasing in 2018 (24%) but consistent with the long-term average.

Figure 2: Share of Private Equipment & Software Investment Volume by Payment Method, 2018 vs. 2021



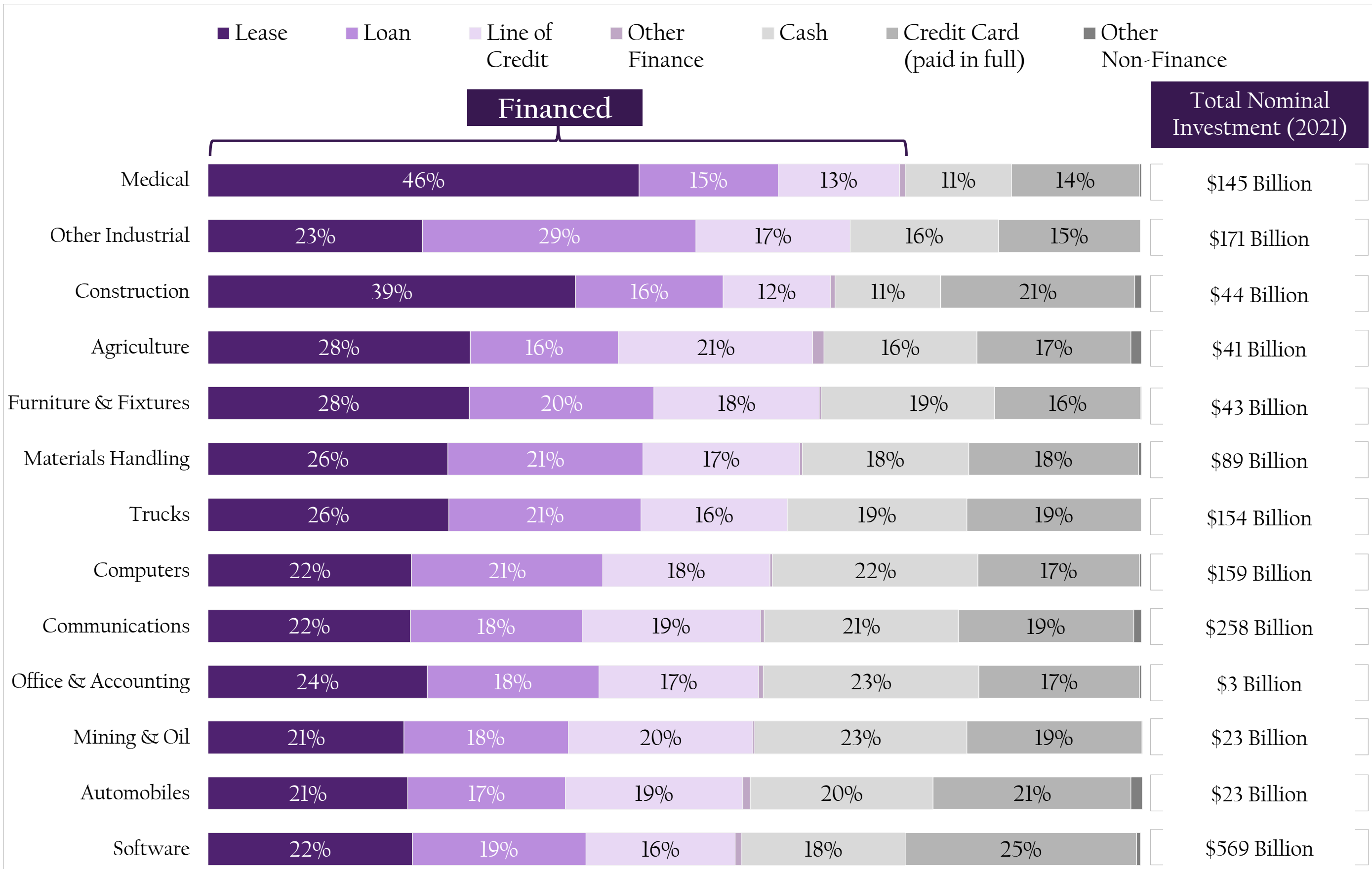
Sources: 2019 and 2022 Foundation end-user surveys. The chart excludes public sector equipment and software acquisitions.
* "Other Finance" captures non-specific financing methods volunteered by respondents (e.g., "short rental," "monthly payment," or "pay over time"). "Other Non-Finance" captures other non-financing options volunteered by respondents (e.g., "bartering," "grant funding," or "trade-in").

Other methods of private sector equipment and software financing also increased in 2021 relative to 2018. For example, about 19% of private sector equipment and software acquisitions were financed through secured loans (up from 12%) and 17% through lines of credit (up from 16%). Among non-financed equipment and software acquisitions, paid-in-full credit cards (19%; up from 17%) and cash (19%; down from 27%) comprised roughly equivalent shares in 2021, in contrast to recent years where cash was the predominant choice for non-financed investment. Overall, the survey suggests that a significant share of end-users shifted from cash-based acquisition to secured lending in 2021, reflecting rock-bottom interest rates during this period. It also suggests that the use of non-financing methods may increase as rates rise: as discussed later in the "Planning Ahead" section of this report (see pp 23–24), 52% of respondents intend to use their credit cards to fund at least a portion of their equipment and software acquisition in 2023 and 41% of respondents intend to use cash — much higher than the share who expect to use a capital lease (28%), loan (24%) or line of credit (34%) for future acquisition.

Method of Finance by Equipment Vertical

As shown in Figure 3, of the 16 equipment verticals included in the survey, 13 received enough responses to allow for a breakdown by payment method. Medical Equipment was the most likely vertical to be financed in 2021, with an estimated 75% of acquisition volume secured through a lease, loan, or line of credit, followed by Other Industrial Equipment (69%) and Construction Machinery (67%). Software (57%) was the least likely vertical to be financed in 2021, followed by Automobiles (58%) and Mining and Oilfield Machinery (59%). In general, this year's survey yielded both a higher and slightly narrower range in the propensity to finance across equipment verticals compared to the previous survey (57–75% in 2021 vs. 41–65% in 2018), possibly due to the availability of a larger sample size.

Figure 3: Equipment & Software Finance Methods by Vertical, 2021

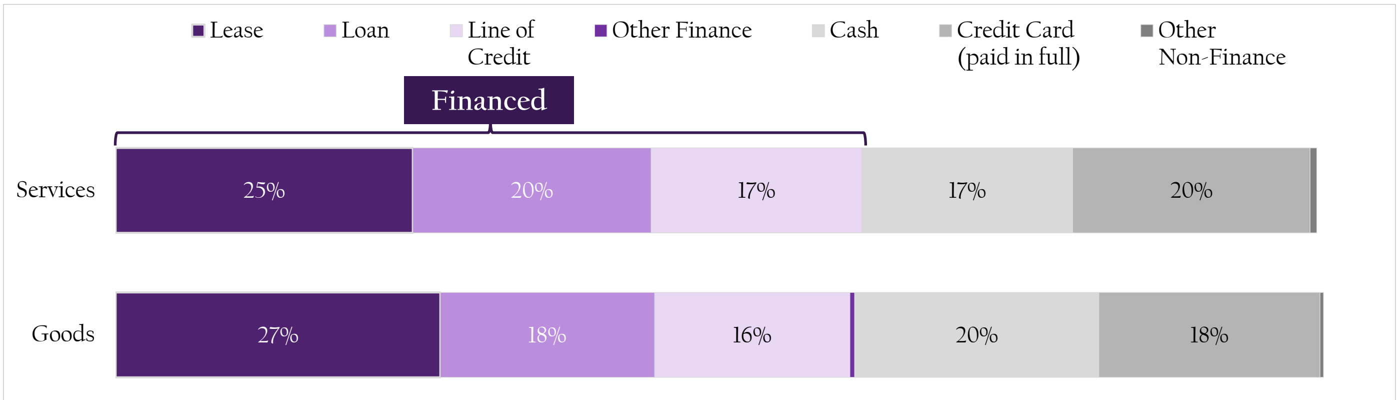


Source: 2022 Foundation end-user survey; BEA.
Note: Equipment verticals not shown received an insufficient number of responses to produce statistically viable results, including Aircraft, Railroad, and Ships & Boats. Shares 3% or less are not labeled.

Method of Finance by End-User Industry

Nearly two-thirds of respondents to the 2022 end-user survey represented service-sector industries (e.g., Professional Services, Health Care, Educational Services, Real Estate), while roughly one-third represented goods-sector industries (e.g., Manufacturing, Construction, Agriculture, Textiles). As shown in Figure 4, the propensity to finance for service-sector firms was nearly identical to that of goods-sector firms (62% vs. 61%), though goods-sector firms were slightly more reliant on leases and slightly less reliant on secured loans compared to service-sector firms. Relative to 2018, both service- and goods-sector firms were more dependent on secured loans and less dependent on cash in 2021, and service-sector firms depended more on lines of credit and credit cards paid in full.

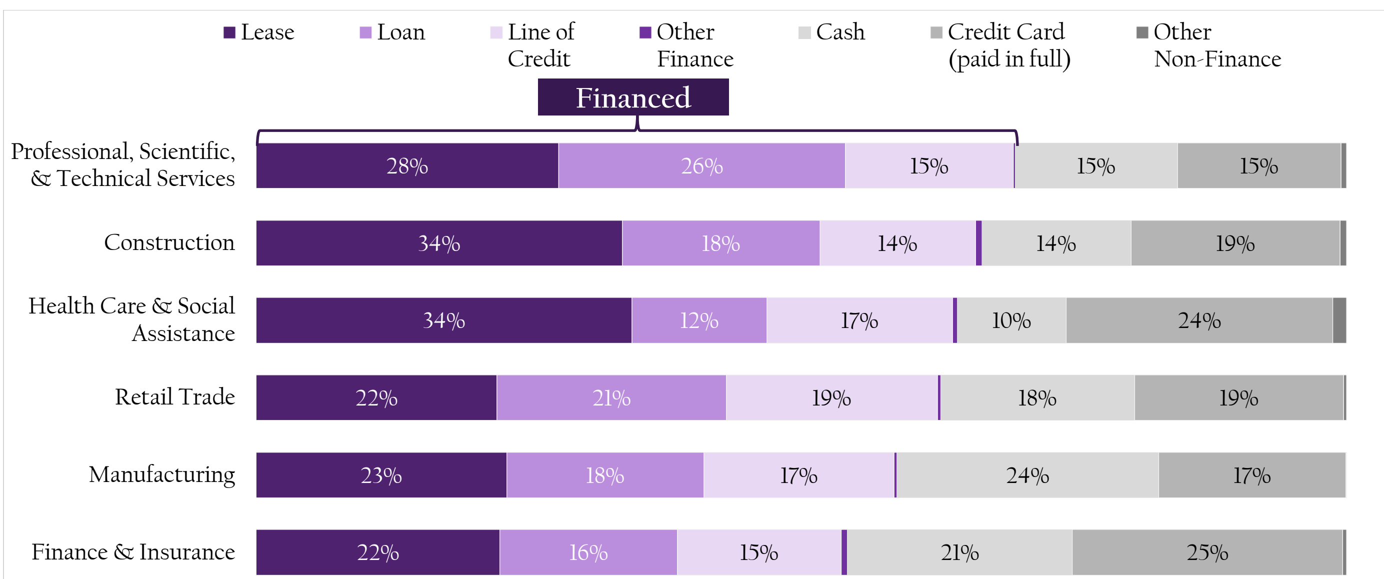
Figure 4: Methods of Acquiring Equipment and Software, by General End-User Industry, 2021



Source: 2022 Foundation end-user survey. Shares 3% or less are not labeled.

This year's survey also permits a breakdown by type of finance across six end-user industries (see Figure 5). Firms in the Professional Services industry were most likely to use financing (70%), followed by Construction (67%), and Health Care (64%). In all six industries, leasing remains the most popular method of finance used, with secured loans being the second-preferred option in all cases except Health Care, where financing via a line of credit was more common than a secured loan. Notably, financing comprised a larger share of equipment and software acquisition in five of the six tracked industries compared to 2018, with Finance and Insurance being the one exception (54% in 2021, compared to 61% in 2018).

Figure 5: Methods of Acquiring Equipment and Software, by Select End-User Industry, 2021

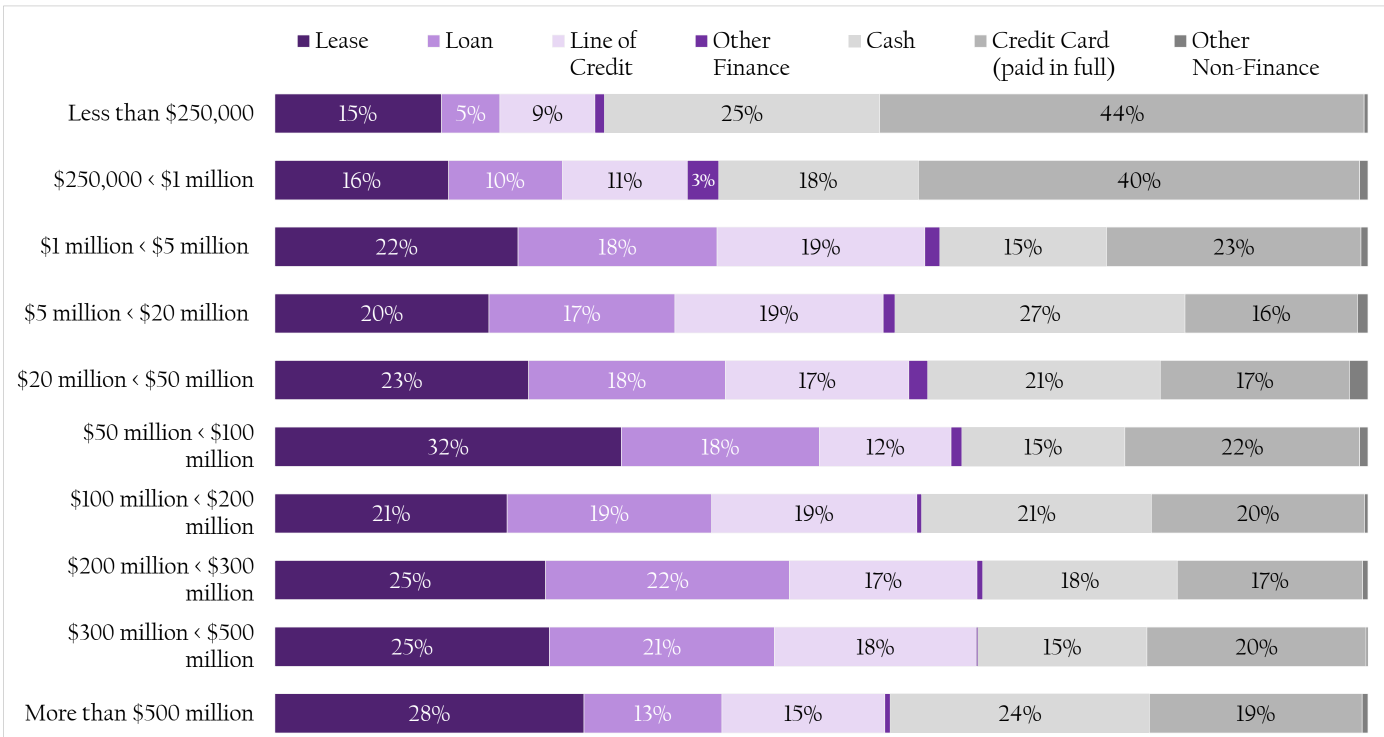


Source: 2022 Foundation end-user survey.
Note: End-user industries not shown received an insufficient number of responses to produce statistically viable results. Shares 3% or less are not labeled.

Method of Finance by End-User Size

According to this year's end-user survey, the propensity to finance equipment and software acquisitions was generally stable across firm size for businesses with more than $1 million in sales — both with respect to the share of acquisitions financed and the financing method used — but dropped off considerably for smaller firms. As shown in Figure 6, the propensity to finance ranged from 56–65% across sales brackets, with the notable exception of the two smallest sales brackets (i.e., 30% for firms with less than $250,000 in sales and 41% for firms with $250,000–$1 million in sales). These micro firms were far more likely to use credit cards to pay for equipment and software. On the other end of the spectrum, large companies with more than $500 million in sales were also less likely than the average firm to finance equipment and software acquisitions and relatively more likely to use cash. Overall, the results shown in Figure 6 were similar to those obtained in previous end-user surveys, including the finding that very small and very large firms are less likely to finance equipment and software acquisitions than mid-sized firms.

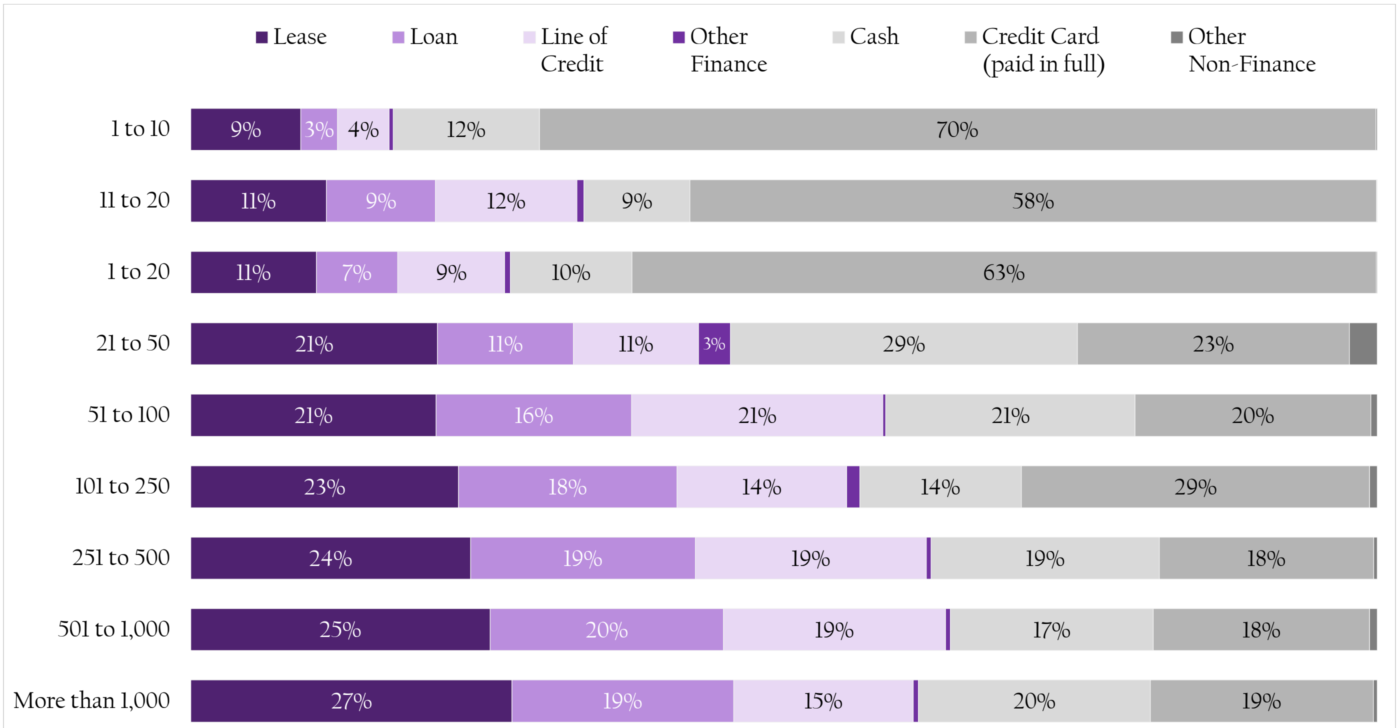
Figure 6: Method of Finance by End-User Size (Sales Revenue), 2021



Source: 2022 Foundation end-user survey. Shares 3% or less are not labeled.

Looking at the same question as defined by a firm's number of employees rather than revenues (see Figure 7), firms with less than 20 employees were far more dependent on credit cards and far less dependent on traditional financing methods than mid-size and large firms. Those with more than 50 employees financed the majority of their equipment and software acquisitions, and the role played by financing — particularly leasing and secured lending — increased steadily as headcount rose.

Figure 7: Method of Finance by End-User Size (Number of Employees), 2021



Source: 2022 Foundation end-user survey. Shares 3% or less are not labeled.

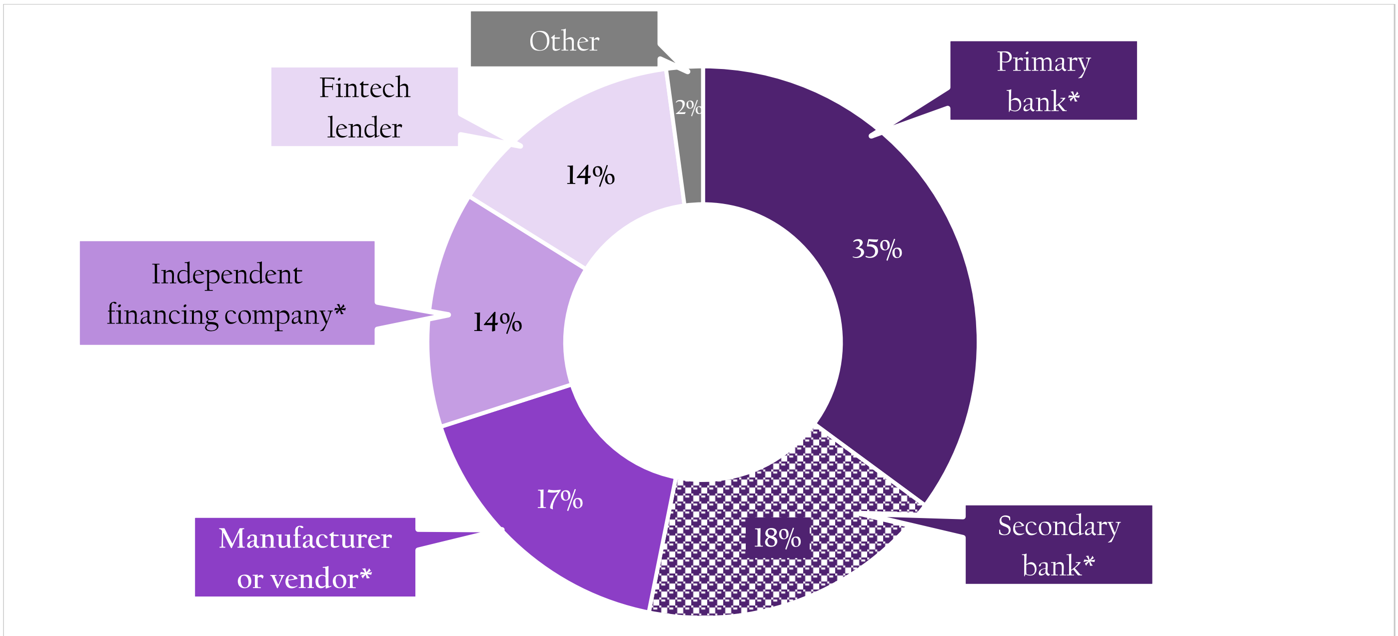
A Closer Look at Lenders

As in previous years, banks were the biggest player in the equipment finance industry in 2021. As shown in Figure 8, about 53% of equipment and software finance volume came from bank lenders (up from 43% in 2018), while 17% came from manufacturers and vendors (down from 33% in 2018) and 14% from independents (up slightly from 12% in 2018). In this year's survey, end users were asked to differentiate between their primary bank and a secondary bank lender and were also able to select "fintech lender" (which was clearly differentiated from an online portal provided by a bank, captive, or independent). In 2021, 14% of equipment and software acquisition volume were made through a fintech. Given the expanded role of fintechs in the equipment finance industry, the Foundation intends to continue tracking this segment in future end-user surveys.

Lenders by Equipment Vertical

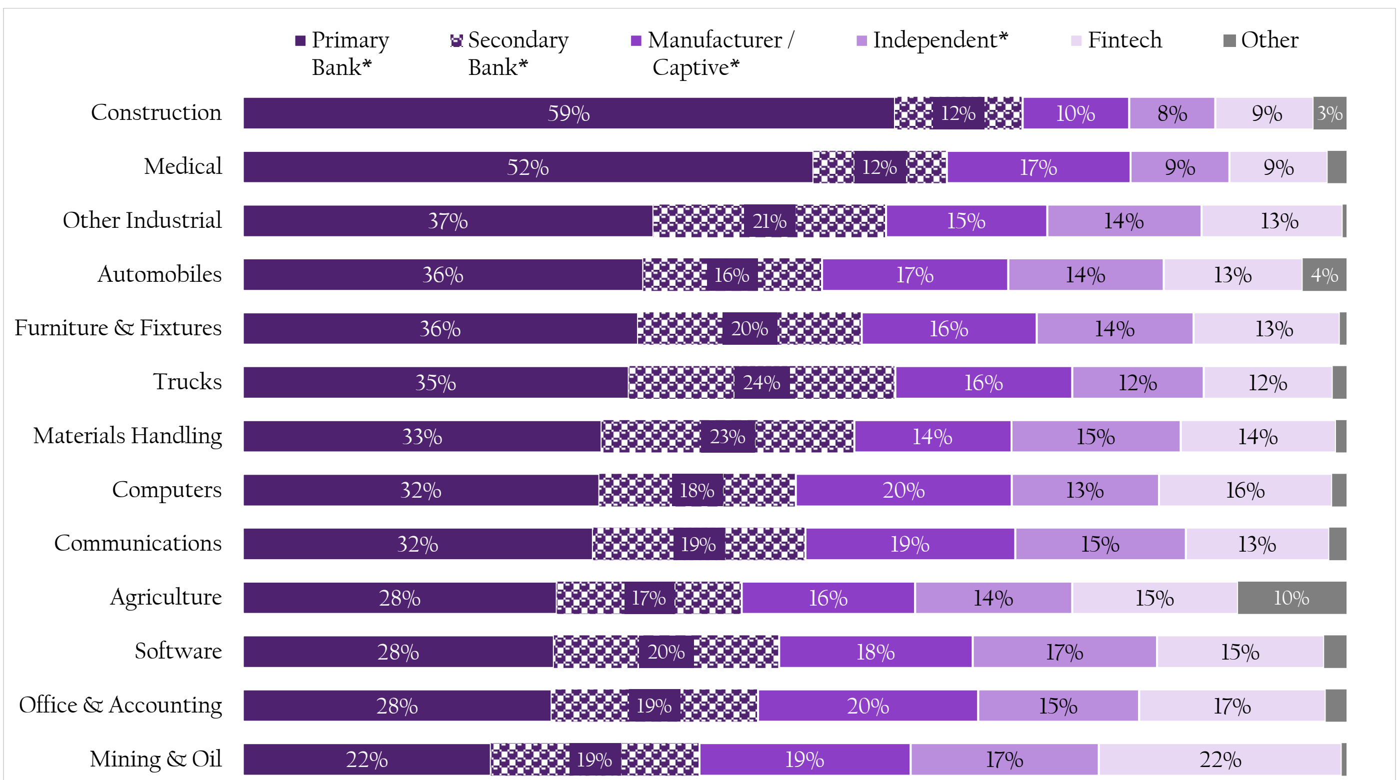
As shown in Figure 9, banks captured the largest share of financing activity across all tracked equipment verticals, with particularly large shares in Construction Machinery (71%), Medical Equipment (64%), Trucks (59%), and Industrial Equipment (58%). Manufacturers/Captives finance the greatest share of acquisition volume for Office Equipment (20%), Computers (20%), Communications Equipment (19%), and Mining & Oilfield Machinery (19%), Independents had their largest footprint in financing acquisitions of Mining & Oilfield Machinery (17%), Software (17%), Communications Equipment (15%), and Materials Handling Equipment (15%). Not surprisingly, primary bank lenders comprised a larger share of bank lending across verticals, but secondary bank lenders played a significant role in several verticals including Trucks (24%), Materials Handling Equipment (23%), and Industrial Equipment (21%).

Figure 8: Equipment & Software Finance Market Segmentation, 2021



Source: 2022 Foundation end-user survey. *Includes online portal provided by bank, captive, or independent.

Figure 9: Equipment & Software Finance Market Segmentation by Equipment Vertical, 2021

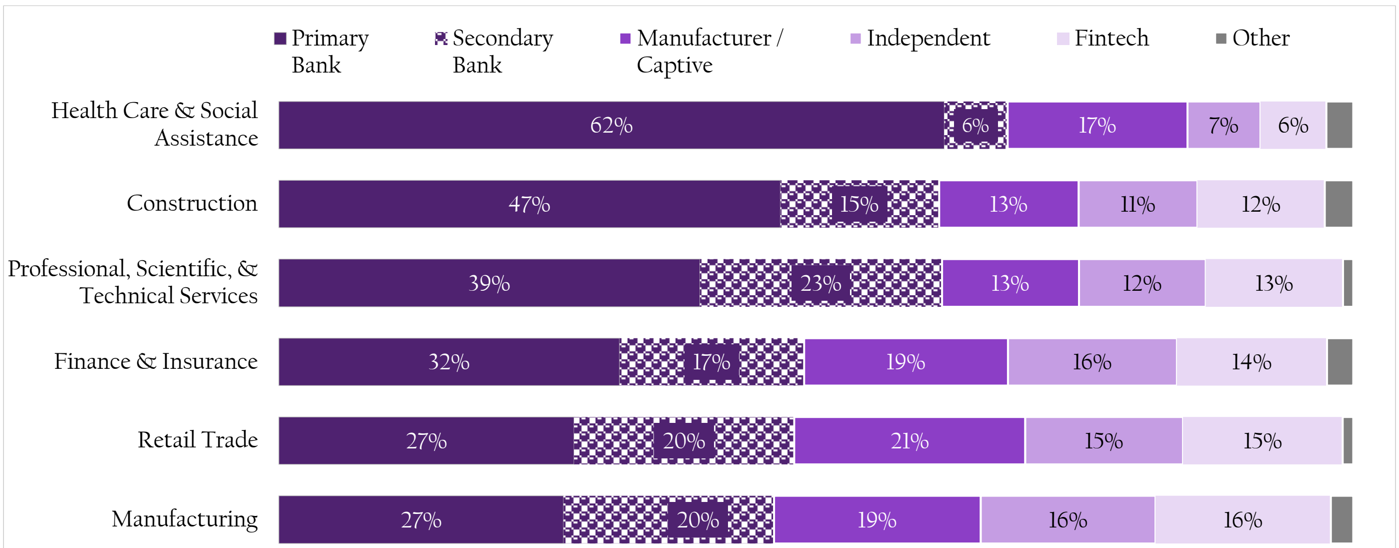


Source: 2022 Foundation end-user survey. *Includes online portal proved by lender.
Note: Equipment verticals not shown received an insufficient number of responses to produce statistically viable results, including Aircraft, Railroad, and Ships & Boats. Shares 3% or less are not labeled.

Lenders by End-User Industry

As shown in Figure 10, a breakdown of lenders by industry shows that banks were the dominant financing choice across tracked industries and were responsible for well over half of equipment and software financing activity in the Health Care (68%), Construction (62%), and Professional Services (62%) industries. Captives were the second-largest source of financing in tracked industries, ranging from 13–21% of total financing activity. The industries most dependent on captives to finance equipment and software acquisitions were Retail Trade (21%), Finance & Insurance (19%), and Health Care (17%). Among independents, key end-user industries include Finance & Insurance (16% of financing volume), Manufacturing (16%), and Retail Trade (15%). Fintechs were also successful in these three industries and captured similar shares of overall financing volume.

Figure 10: Type of Lender by End-User Industry, 2021



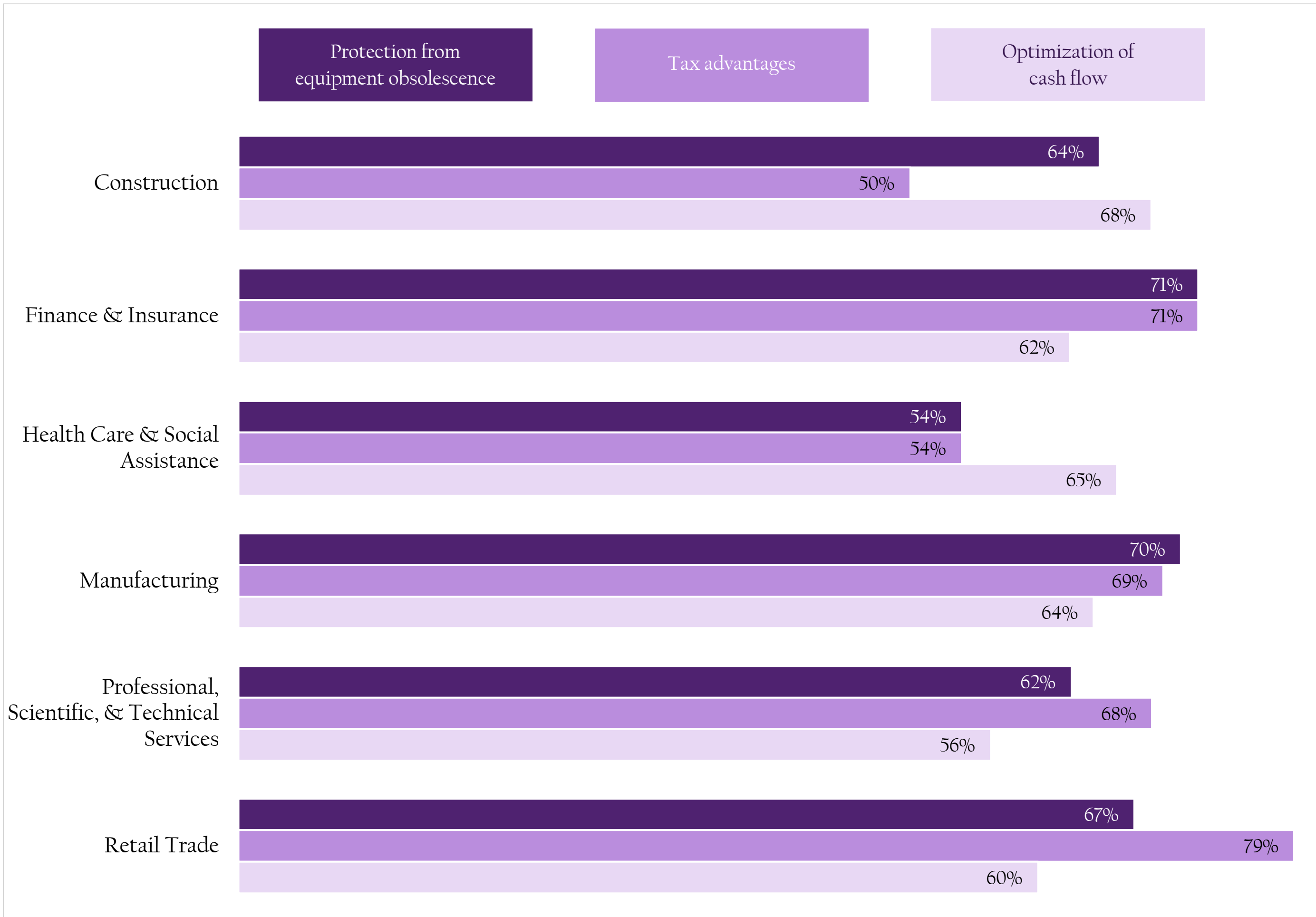
Source: 2022 Foundation end-user survey.
Note: End-user industries not shown received an insufficient number of responses to produce statistically viable results.

A Closer Look at Reasons for Financing

In aggregate, end-users who chose to finance their equipment and software acquisitions were equally likely to cite protection from equipment obsolescence (64%), tax advantages (64%), and the optimization of cash flow (62%) as the primary reasons for choosing financing over cash or credit card (paid in full) to make purchases. Compared to the 2019 survey, end-users were significantly more likely to cite each of these reasons this year, as each option was selected by just under half of respondents. This result may suggest that businesses are increasingly viewing financing as an important tool to help firms gain access to the most up-to-date equipment and technology.

At a more granular level (see Figure 11), end-users in the Finance and Insurance industry were more likely to indicate that their decision to finance acquisitions stems from a desire for protection from equipment obsolescence (71%), mirroring the result obtained in the 2019 survey. Retail Trade end-users were more likely to point to tax advantages as a reason to finance acquisitions (79%), while Construction firms were more likely to indicate that their use of financing arises from an interest in optimizing cash flow (68%). Consistent with previous years, most respondents selected multiple reasons for using financing over cash.

Figure 11: Reasons for Using Financing over Cash or Cash-Equivalent, By End-User Industry, 2021



Source: 2022 Foundation end-user survey.
Note: End-user industries not shown received an insufficient number of responses to produce statistically viable results.

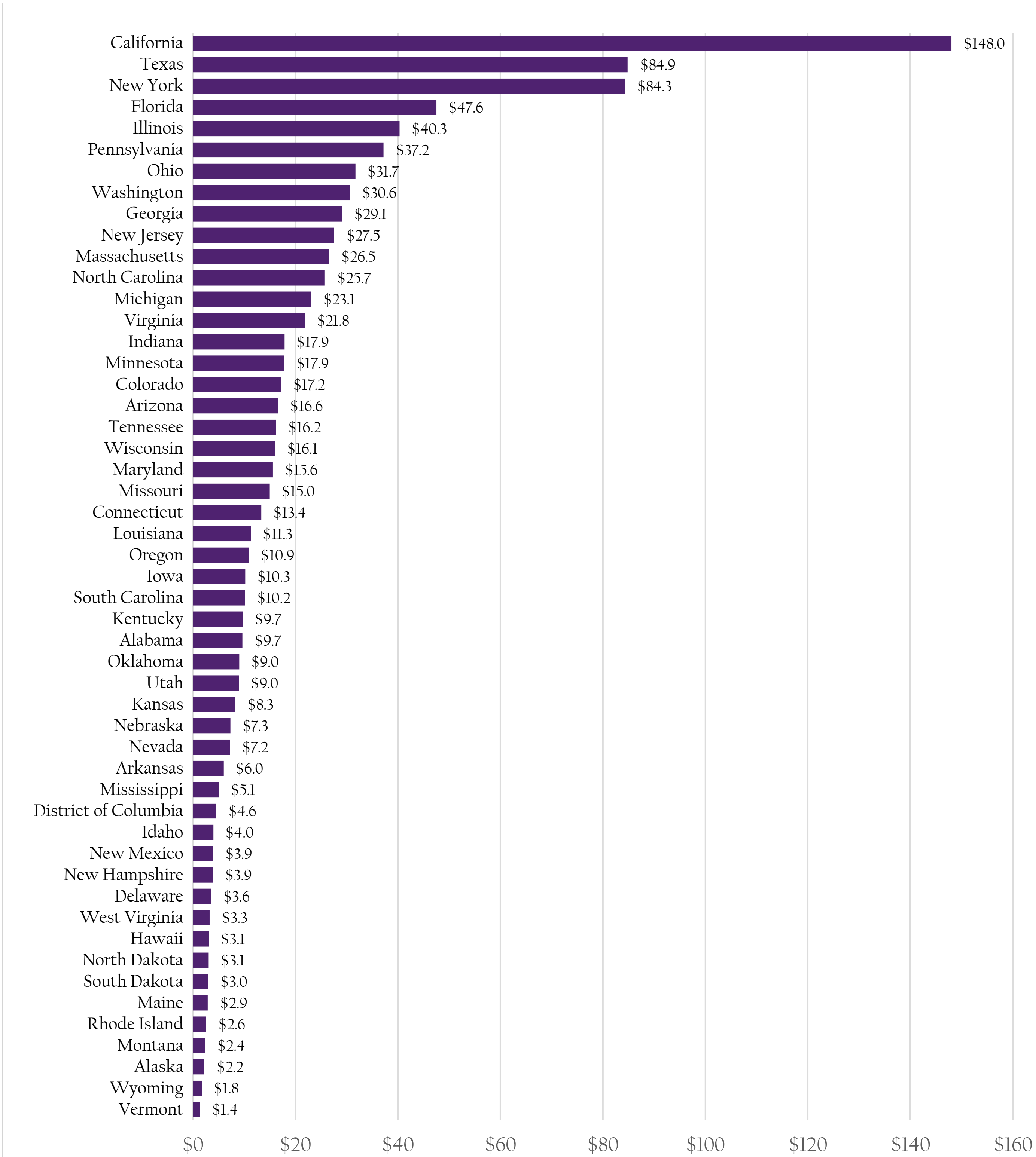
State-Level Equipment & Software Financing

While BEA's 2021 business investment data is not sufficiently granular to compute reliable estimates of state-level equipment and software financing activity, state estimates can be produced by combining BEA's industry-level private investment data from 2020 with equipment-specific financing propensities derived from this year's end-user survey. The results of this analysis are presented in Figure 12.[ii]

- Just over half of the private sector's 2020 equipment finance volume occurred in the largest eight states: California ($148 billion; 15.4% of private sector equipment and software finance volume), Texas ($85 billion; 8.8% of private sector volume), New York ($84 billion; 8.7%), Florida ($48 billion, 4.9%), Illinois ($40 billion; 4.2%), Pennsylvania ($37 billion; 3.9%), Ohio ($32 billion; 3.3%), and Washington ($31 billion; 3.2%).

- Relative to 2017 financing levels, regions that performed the best in 2020 include North Dakota (+36% growth since 2017), Washington (+35% growth), Utah (+34%), and Idaho (+30%). States experiencing the weakest growth in private equipment and software financing activity during this period include Delaware (+4.7%) and Hawaii (+4.7%).

Figure 12: Equipment & Software Finance by State (2020), Billions of Dollars



Sources: BEA, Keybridge LLC, 2022 Foundation end-user survey. Note: Estimates are produced using the latest end-user survey data on the propensity to finance various types of equipment and software in 2021, but these propensities are applied to 2020 investment data as these are the latest data available that are published at the granularity required to conduct the analysis. These estimates also exclude public sector financing due to data availability. As a result, state estimates will not sum precisely to the industry sizing estimate in Figure 1.

Planning Ahead: The Next 12 Months

In addition to collecting information relevant for sizing the equipment finance industry in the previous year, the Foundation's end-user survey typically asks businesses to disclose their plans for investing in equipment over the next twelve months. This year, the Foundation also included questions to help assess the impact of the pandemic and its economic fallout on end-users' equipment and software investment plans.

For example, this year's survey revealed that 70% of equipment end-users anticipate a U.S. economic recession in 2022 or 2023. Normally, businesses tend to pare back on investment plans when a downturn is expected in favor of "hunkering down" through the lean years until the business cycle resets and demand improves. While there is evidence that this may be already occurring — e.g., real equipment and software investment growth slowed to less than 1% in the second quarter of 2022, and the Foundation / Keybridge economic outlook forecasts continued weakness for the remainder of the year — the end-user survey provides some optimism for the future. Specifically:

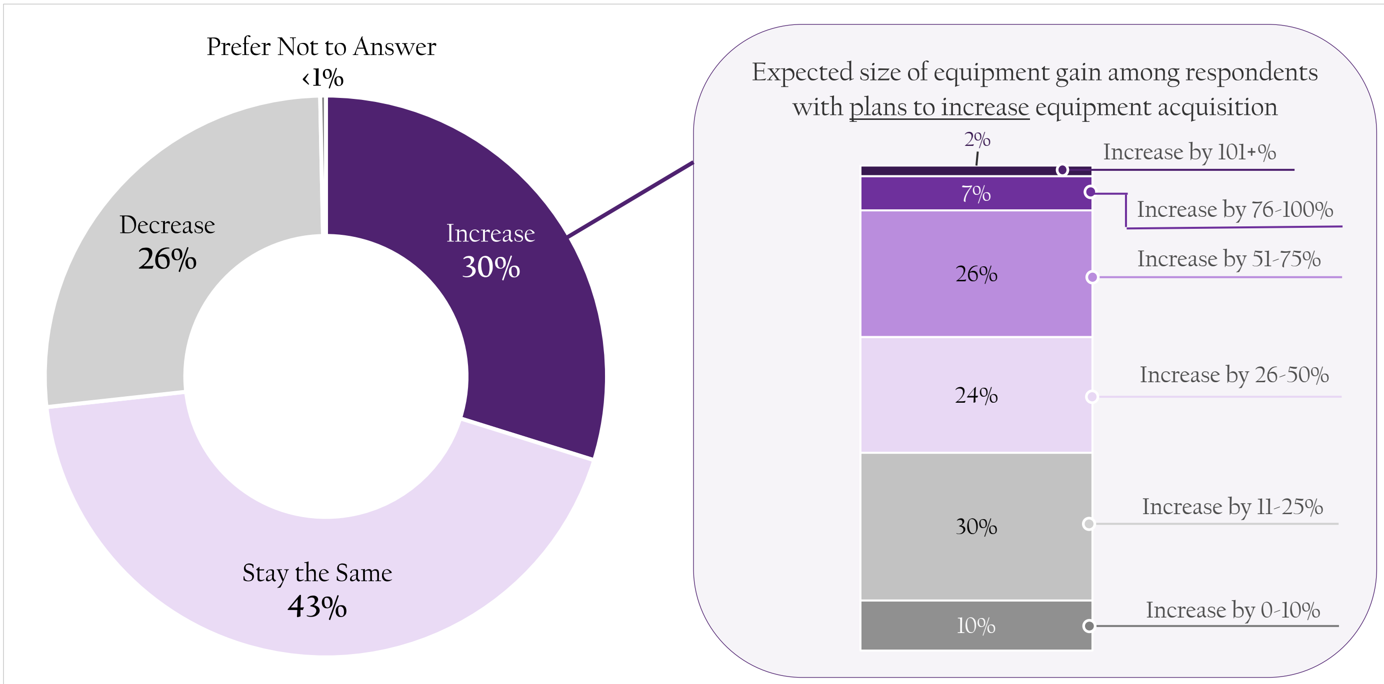
- 63% of businesses stated that, all else equal, they are *more* likely to invest in equipment and software in a post-pandemic environment, compared to just 12% who are less likely to do so.

- Similarly, while reduced labor availability and rising labor costs have been a commonly cited source of concern for business owners, 63% of survey respondents agreed with the following statement: "Due to rising labor costs, my firm is planning to increase investment in equipment and/or software in the next 12 months to reduce its dependence on labor." While this may lead to increased automation and reduced hiring in some industries, it is a positive development for the equipment financing industry and, over time, should increase economic productivity, put downward pressure on inflation, and benefit U.S. consumers overall.

Anticipated Equipment & Software Investment, Next 12 Months

As shown in Figure 13, a plurality of respondents (43%) do not anticipate a change in the volume of equipment and software they intend to acquire over the next 12 months, while a roughly equal percentage expect their acquisitions will increase (30%) vs. decrease (26%). Of those who anticipate an increase, most expect their acquisitions will grow by 11–75%, though 1-in-10 anticipate an even larger increase. The most commonly selected equipment investment verticals among end-users who plan to boost their equipment and software acquisition were Computers (43%), Software (38%), Office Equipment (36%), and Communications Equipment (28%). These categories were also the most commonly selected in the 2019 survey, but the effect was more pronounced this year. This movement may reflect the increased importance of these equipment verticals to business operations in a post-pandemic environment in which hybrid-remote working arrangements and online sales channels are key.

Figure 13: Anticipated Change in Equipment & Software Acquisition, Next 12 Months



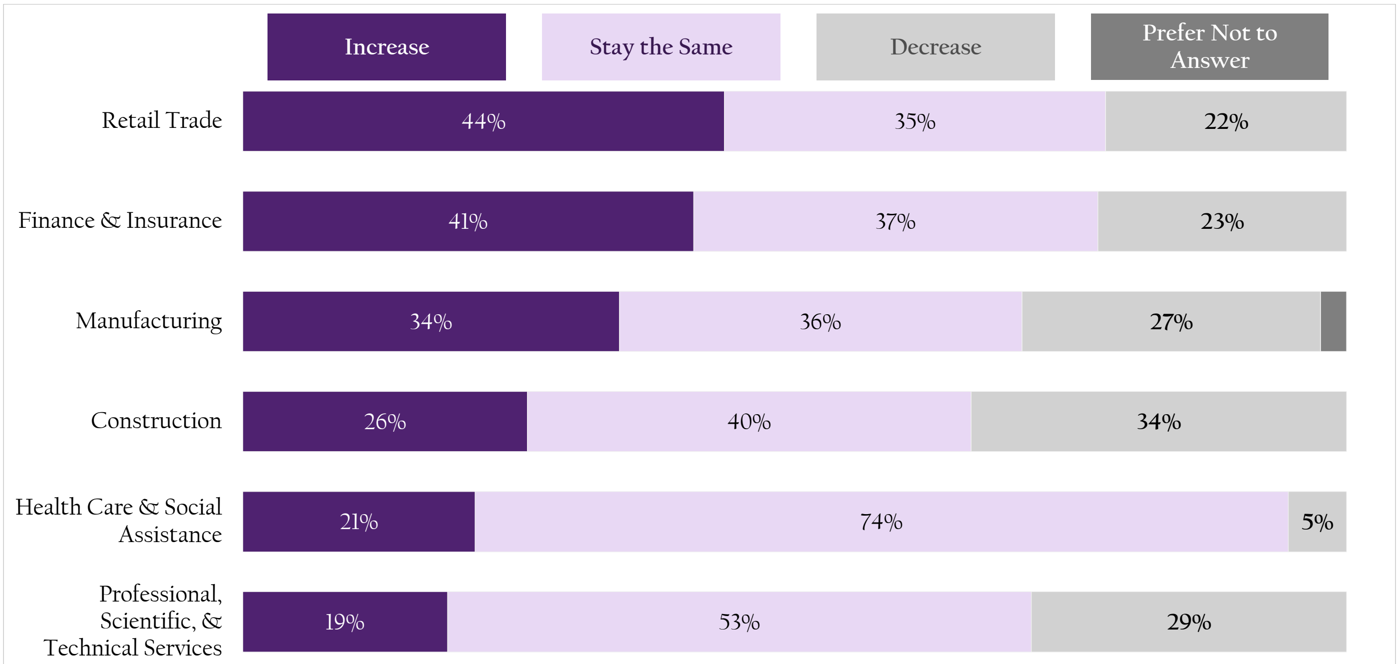
Source: 2022 Foundation end-user survey

The anticipated change in equipment and software acquisition over the next 12 months is shown through an industry lens in Figure 14. Retail Trade (44%) and Finance & Insurance (41%) are the industries in which a greater share of end-users anticipate acquiring more equipment and software, while Health Care (21%) and Professional Services (19%) are the industries in which a lower share of end-users anticipate equipment and software acquisition growth. Most end-users in the Health Care industry expect equipment and software acquisition to hold steady over the next 12 months, possibly reflecting the surge in investment in medical equipment that occurred during the pandemic. Interestingly, Construction has the highest share of end-users who anticipate *less* equipment and software acquisition over the next year (34%), suggesting that strong growth in housing activity in late 2020, 2021 and early 2022 may have pulled equipment investment forward during this period and increased the likelihood of an investment slowdown over the next 12 months.

Anticipated Methods of Finance

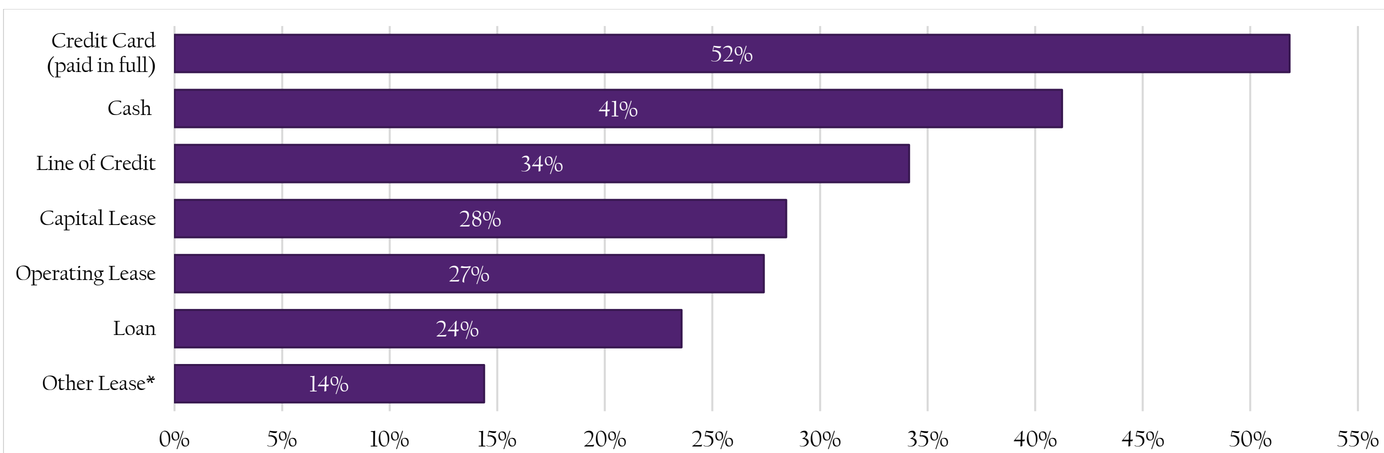
As shown in Figure 15, roughly half of respondents anticipate paying for at least a portion of their equipment and software acquisitions using a credit card, while 41% anticipate using cash. Among financing methods, 34% anticipate using a line of credit to finance a portion of their acquisitions, 28% intend to use a capital lease, 27% intend to use an operating lease, and 24% intend to use a loan. Importantly, 69% of respondents selected at least one form of financing (i.e., lease, secured loan, or line of credit) — if respondents follow through with these plans, it would represent a 10-point decline in the share of end-users who use some form of financing when acquiring equipment or software.

Figure 14: Anticipated Change in Equipment Acquisition, Next 12 Months, by End-User Industry



Source: 2022 Foundation end-user survey.

Figure 15: Anticipated Finance Methods to Acquire Equipment or Software, Next 12 Months



Source: 2022 Foundation end-user survey. Respondents were allowed to select multiple payment methods, so percentages will not sum to 100%.
*Includes tax and finance leases.

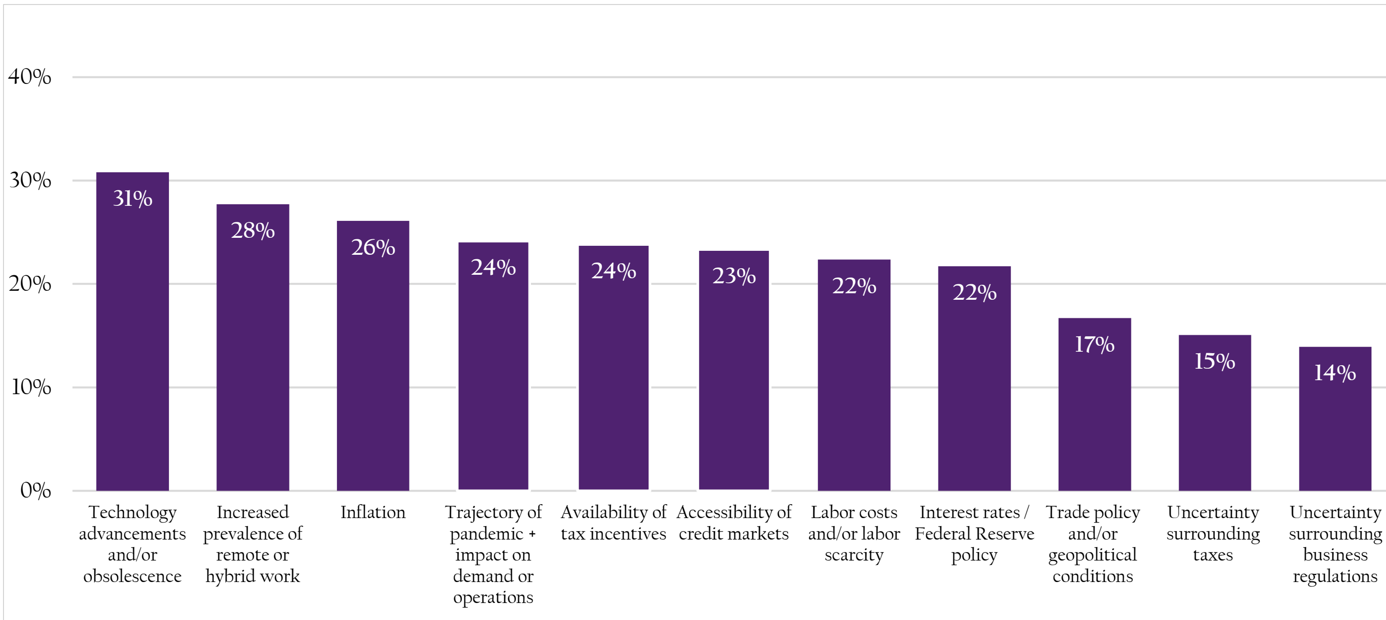
Factors Influencing Equipment Financing Decisions

As shown in Figure 16, a variety of external factors may influence businesses' decisions to finance additional equipment over the next 12 months; however, unlike in previous years, no single factor stands out.[iii] The most frequently cited factor was "technology advancements and/or obsolescence" (31%), though the share of respondents selecting it was down from 35% in 2019. Three new categories added to the survey this year to reflect post-pandemic economic trends realities were among the most frequently selected options, including "increased prevalence of remote or hybrid work"

(28%), "inflation" (26%), and "trajectory of pandemic and impact on demand or operations" (24%). Other commonly selected factors included "availability of tax incentives" (24%), "accessibility of credit markets (23%), "labor costs and/or labor scarcity" (22%), and "interest rates / Federal Reserve policy" (22%).

Not surprisingly, inflation and monetary policy are of greater concern than in previous surveys. In 2018, just 5% indicated that the Fed's interest rate policy would affect their near-term equipment acquisition plans, and while this rose to 16% in 2019, it was still among the least-common response options selected. This year's survey indicates that equipment and software end-users are clearly thinking more about inflation, the Fed's response to it, and implications for their business strategy.

Figure 16: External Factors Affecting Equipment & Software Acquisition Decisions, Next 12 Months



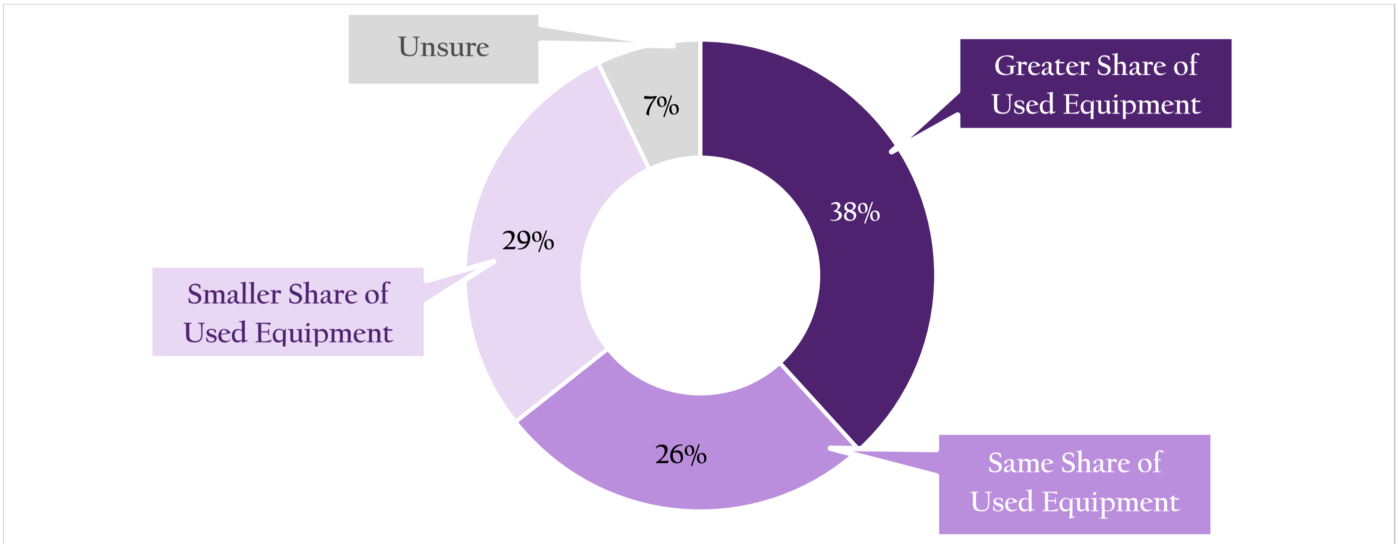
Source: 2022 Foundation end-user survey. Note: Many respondents selected multiple factors, so percentages will not sum to 100%.

New vs. Used Equipment Acquisition

After the federal tax code was amended via the Tax Cuts and Jobs Act of 2017, the Foundation began asking respondents whether they expect the share of used equipment as a percentage of overall equipment acquisitions to change. Now that businesses have had more time to analyze changes made under the new law and adjust their business strategies accordingly, the Foundation included the question again this year. As shown in Figure 17, a plurality of respondents (38%) anticipate relying more on used equipment than new equipment in the next year, nearly double the result obtained in the 2019 survey (21%). Similarly, the share of respondents who expect to rely less on used equipment fell to 29% this year, down from 37% in 2019. Taken together, these results suggest that used equipment is playing a more important role in end-user acquisition plans.

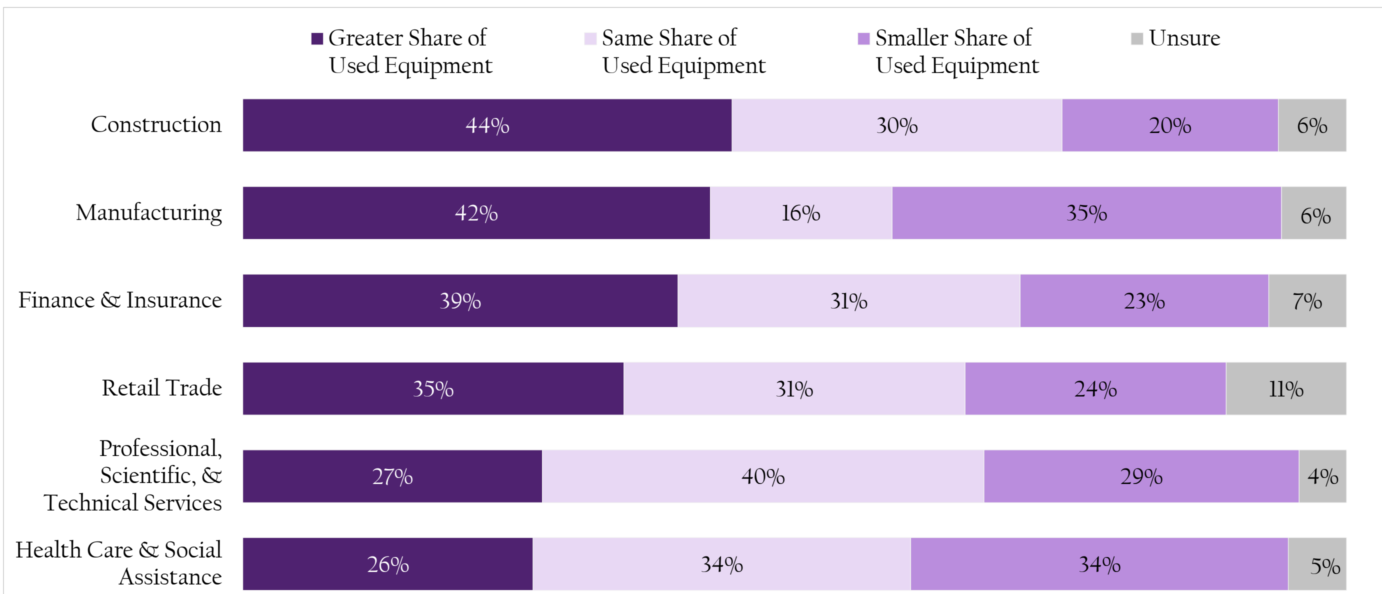
At an industry level, respondents in the Construction industry were most inclined to anticipate greater dependence on used equipment, with 44% indicating that used equipment would comprise a greater share of their acquisitions (see Figure 18). On the other side of the spectrum, Health Care and Professional Services firms expressed less interest in used equipment.

Figure 17: Plans to Acquire New vs. Used Equipment Over Next 12 Months



Source: 2022 Foundation end-user survey.

Figure 18: Plans to Acquire New vs. Used Equipment Over Next 12 Months, by End-User Industry



Source: 2022 Foundation end-user survey.

NOTES

How to Use This Report

The Industry Horizon Report is one of several Foundation publications that contains industry-relevant economic insights to help industry leaders make more informed business decisions. Specifically, the end-user survey offers a detailed look at equipment acquisition and financing decisions for specific equipment verticals and industries, the key factors influencing the decision to use financing (e.g., a business's industry, size, and profitability; economic conditions; and policy developments), and how financing decisions are likely to evolve over the next year. Equipment finance industry leaders can use this information to better position their businesses for faster growth (e.g., by emphasizing or deemphasizing particular equipment verticals or end-user industries). The information can be used in combination with other Foundation reports — including the quarterly Equipment Leasing & Finance U.S. Economic Outlook, the monthly U.S. Equipment & Software Investment Momentum Monitor, or the annual Industry Future Council report (all produced in conjunction with Keybridge) — to better understand the current and near-term economic conditions and other relevant trends facing the equipment finance industry.

For more information on how to incorporate the information presented in this report into your business's strategic and tactical decisions, please refer to the Foundation's *Applied Economics Handbook*. The *Handbook* provides industry-tailored insights on how to leverage economic data and tools using applied economics to make more informed business decisions. It is intended to both familiarize industry executives with the concept of applied economics and provide a series of straightforward tools, techniques, and use cases that can be adapted and customized to individual firms.

The *Handbook* can be accessed for free at the following link:

https://www.store.leasefoundation.org/cvweb/cgi-bin/msascartdll.dll/ProductInfo?productcd=AppEco2018

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Endnotes

[i] In other publications, such as the Foundation's Equipment Leasing & Finance U.S. Economic Outlook, real (i.e., inflation-adjusted) investment is used rather than nominal investment. However, given that survey respondents reported their equipment acquisitions in nominal terms, nominal investment data is consequently used to estimate the industry's size to ensure an apples-to-apples comparison.

[ii] Note: Estimates are produced using the latest end-user survey data on the propensity to finance various types of equipment and software in 2021, but these propensities are applied to 2020 investment data and exclude public sector financing due to industry-level data availability. As a result, state estimates will not sum precisely to the industry sizing estimate in Figure 1.

[iii] Previous surveys have included the broad category of "general economic conditions," and this has typically been the most frequently selected factor. This year, the Foundation replaced this category with more detailed categories to better capture current economic trends, including "inflation," "trajectory of pandemic + impact on demand or operations," and "labor costs and/or labor scarcity." The Foundation also added "increased prevalence of remote or hybrid work" to the list of categories.

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