



Lessors Look Forward to Renewed Growth in a Changing Marketplace

Newsline sits down with four lessor/funding sources to talk about the optimism surrounding a new business-friendly political environment and what's at stake for the equipment finance industry. Featuring: Miles Herman, of LEAF Commercial Capital; Deborah Monosson of Boston Financial & Equity Corporation; Daniel J. Krajewski, of Sertant Capital; and Marci L. Slagle, of SQN Capital Management.

Newsline: Thanks for joining us for this discussion! Would you please provide our readers with a brief description of your company?

Miles Herman: LEAF Commercial Capital is a subsidiary of People's United Bank, and maintains a nationwide origination footprint working with manufacturers, distributors, dealers, referral partners and end users of essential-use equipment and software in a variety of industries, including light industrial, manufacturing, construction, office products and technology. We offer portfolio management solutions for lenders when diversifying, rebalancing and driving liquidity from their equipment finance assets. Our capital strength, expertise and speed deliver confidence of execution when you need it most.

Deborah Monosson: Boston Financial & Equity Corporation is celebrating its 50th year in business. We lease primarily to early stage and emerging-growth companies. Some may be revenue generating but not profitable, some are pre-revenue, and the balances are typically a bit later stage with profits of \$20 million or more during the growth phase. Our primary sources of originations are from direct channels, and we also take brokered deals. We lease in the continental U.S. and are general

lessors, but stay away from specialized pieces of equipment. Our largest asset classes are technology, lab and test equipment.

Daniel J. Krajewski: Sertant Capital is a full-service equipment financing company, originating lease transactions exclusively through third-party referral sources, including business advisors, brokers and equipment vendors. Based in Irvine, CA, Sertant provides flexible capital to structure complex transactions for borrowers both domestically and internationally. Our client base ranges in revenues and credit profiles, and we deal with all types of collateral. We structure transactions for A and CCC- rated companies, as well as privately held entities with challenged credit, difficult equipment or documentation issues, starting at \$10 million to more than \$10 billion in revenues.

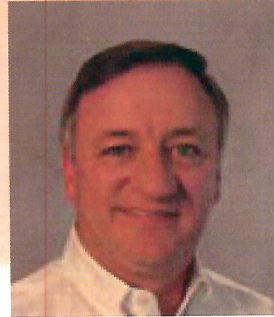
Marci Slagle: SQN Capital Management is an international finance company and a multinational alternative investment manager specializing in collateralized, non-correlated, income-producing investments. SQN manages seven funds catering to a broad array of investors including institutions and pension plans, banks, funds of funds, wealth managers, and retail investors in the United States. SQN manages the world's



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only publicly-traded diversified asset finance and equipment leasing fund, which is traded on the Premium Segment of the Main Market of the London Stock Exchange. It has also taken over the management of the SME Loan Fund that has been renamed the SQN Secured Income Fund and trades on the Specialist Segment of the Main Market of the London Stock Exchange. SQN also manages separate accounts for mid-sized insurance companies throughout the U.S. SQN manages or advises on funds domiciled in the U.S., Great Britain, the Channel Islands and the Cayman Islands. As a finance company and investor, SQN provides financing for business-essential assets and equipment across a diverse spread of industries. Projects of interest to SQN range from six months to 20 years in term, and in amounts ranging from \$500,000 to \$50 million. With offices in New York and London, SQN focuses on the U.S. and U.K. markets and has provided financing on six continents.

Newsline: Considering we are in a rising interest rate environment, what are you hearing from your vendor partners, broker partners, indirect deal sources, and direct origination teams (as applicable) in regards to borrower sentiment related to capital expenditure (CAPEX) planning in the small- to middle-ticket market for 2018?

Herman: I think the overall mood in this rate environment is one of cautious optimism. Most indicators and studies report an overwhelmingly positive sentiment regarding expanding CAPEX in 2018, and the businesses we work with back that up. There's also a sense of urgency to act on CAPEX plans

sooner rather than later in the face of three to four federal rate hikes projected this year. But there are also a lot of questions about meeting the requirements of recent tax law changes and about the lasting strength of the economic growth we're seeing now, both of which serve to balance justified enthusiasm with an appropriately conservative attitude toward investment.

Monosson: I have not heard anything much about the interest rate environment, but then again, our clients are not rate sensitive. Our clients are typically in the very early stages of their lives, they may have raised a seed round or beyond, but they are not profitable. Some are not even generating revenues yet, therefore, they are not able to go to a bank or traditional lessor and obtain competitive rates. Although we may be more expensive than a bank, we are less expensive than equity. They are willing to pay a higher rate to lease the equipment that allows them to grow.

Krajewski: Despite the rising interest rate environment, there is a general sense of optimism in borrower sentiment as relates to projected capital expenditure in the small- to mid-size ticket market. This optimism stems from the strong market momentum we saw in 2017 that most small business owners believe will carry over into 2018. This optimism was reinforced by a recent industry survey, which found 77 percent of business owners expecting a healthy cash flow outlook, 38 percent expecting to increase allocation of capital expenditure, 46 percent expecting credit to be easy to obtain, and 33 percent expecting to increase their workforce in 2018. All these factors saw an increase from one to six percentage points from

prior-year survey results. We're hearing and feeling the same sentiment from our origination partners.

Slagle: We work in the larger middle-market arena, and so far we have not seen a drop-off in business. As we use fund rates they tend not to fluctuate with the market. For this reason, we feel we have a unique ability to stay very competitive in a rising rate environment.

Newsline: President Trump recently signed H.R.1, a law that enacts the most sweeping tax code changes in decades. How do you feel this change in tax law will impact deal flow from your various sources of new business in 2018?

Herman: Despite the questions surrounding the impact and application of recent tax code changes, I believe it will encourage investment in equipment and software across most if not all the industries we serve. While businesses should always consult their tax professionals before making any decision regarding the tax implications of acquiring equipment, I agree with ELFA's 2018 forecast of equipment acquisition trends that these reforms will release considerable pent-up demand in verticals such as computers and software, as well as spur investment in industrial equipment and vehicles, among other asset types.

Monosson: I don't.

Krajewski: While it's too early to tell what the full impact of H.R.1 will be, we believe the tax reform will increase CAPEX spending due to the business incentives, which should increase deal flow. However, the market needs time to digest the new tax code before evaluating its full impact. We've received many questions from our origination partners regarding the effects of tax reform. We anticipate origination remaining steady, if not increasing, throughout the year. We are committed to keeping our clients abreast of the impact and trends this important legislation will have upon the equipment lease and financing industry.

Slagle: For now I believe it is too soon to form a real opinion on how this will affect our day to day business. Initially, the confusion on how to handle the changes may cause a bottleneck in the acquisition pipeline. I think the increase on the supply side due to large corporate tax cuts will be negligible. To the extent there is some uptick in aggregate demand to consumers having a slight increase in disposal cash, it may be stimulative on the overall economy and may increase companies' willingness to invest. The effect it has on the market and smaller independent companies' revenue will have a larger effect on our day-to-day business, as will bonus depreciation. This should lead to a "push forward" effect, getting more companies to move back into an acquisition mode and lead to more financing contracts.

Newsline: Financing expectations from brokers and vendor partners continue to evolve. From your experience, what are the most important requirements a lessor/funding source must meet in order to satisfy vendor-partners and/or brokers?

Herman: In terms of vendor-partner expectations from leasing and finance partners, I think the sorts of things that previously differentiated your business – quick funding, easy documentation, etc. – are simply expected, and rightly so. The businesses we work with shouldn't have to ask if we deliver on those fronts. Instead, they place a very high value on integrity and trust. Part of that is clearly stating what you can and will do, and then doing it. But another part is the ability to deliver a quick "no." Here at LEAF, if there's something we don't feel we can deliver in an excellent way, we will tell you that right up front. We'd rather turn someone away than put ourselves in a position where we can't deliver outstanding value. I think that's the kind of integrity vendor-partners are looking for. It's certainly been our experience.

Monosson: I think quick funding is important when working with vendors. Also, quick turn downs are always appreciated by brokers so they can move on. Additionally, bundling of soft costs into the lease is important.

Krajewski: We continue to see the need for competitive rates and structures, as well as cycle times. Our vendor- and broker-partners value end-to-end fulfillment, which we provide by working alongside them to facilitate the entire process. It's important our partners feel the process is as easy and seamless as possible for their referred customers.

Slagle: Having spent most of my career as well as my time at SQN, in the lower middle market, I think the back office and ease of deal flow tends to be more important than rate. This is especially true given the sector we are working.

Newsline: For those of you who fund deals sourced through the broker channel, how would you describe the importance of this source of financing for the small- to mid-sized business community? Have broker expectations of your company as a funding source changed over the past few years?

Krajewski: The broker channel is a critical financing source for the small- to mid-sized business community. Most SMB's have limited resources and time. By utilizing the broker channel, it allows executives to free up time to focus on long-term strategy and growth while entrusting immediate needs of equipment financing responsibilities with a knowledgeable partner.

Slagle: SQN currently works exclusively in the third-party or intermediary market, with both large and middle-market lessors. I think as companies continue to specialize in both equipment specifics, industries and structure, we will continue to rely on brokers and funding sources to feed our funds.

Newsline: The Fintech lending model has matured and become an accepted borrowing solution for many small businesses seeking funding for both working capital and equipment. How has this "rapid decision-making" expectation impacted your ability to meet the expectations of your vendor-partners, broker-partners and direct borrowers/lessees?

Herman: At LEAF, we've always focused on speed of delivery and enabling rapid decision making by leveraging the best of the technology available to us. Automation, for which we've won several awards over the years, has always been a part of that, but it's taking an even more leading role as we continually evolve our systems to better serve the businesses we work with. When you couple automated speed, ease and reliability from the Fintech world with our deep experience in our subject matter and markets, you get a combination that's not trivial to duplicate.

Monosson: I am not sure that it has affected me, again, as our primary lessee typically does not have historical financials, or a credit history or banks and trades that can be scored readily. Most of our lessees are not in that "rush" and they like a partner that they can work with as their company grows. So, having a lease line-of-credit in place is more crucial to their growth than doing one-offs and taking a chance that they will keep getting funded that way. To our clients, being able to tell their story to someone who understands their business and is a partner with them through their growing pains is of paramount importance. Some of our lessees have lines with us and have over 20 schedules.

Krajewski: Fintech has introduced a speed to market that is beneficial to borrowers seeking rapid answers, which works well in the micro- and small-ticket market. Sertant currently focuses on larger, more structured transactions that require full diligence and we continue to pay attention to the cycle-time requirements of our prospective clients and the market as a whole.

Slagle: SQN tends to stay in the larger- middle market and in storied credits. Our transactions tend to need more personal touch and work than a small-ticket transaction. I see Fintech continuing to help us, but not completely changing the way we work on individual credits. ☺