

By the Numbers: ABL and Factoring Annual Data Survey Review

APRIL 17, 2023 12:00 PM TO 1:15 PM

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Today's Speakers



Barry Bobrow
Managing Director,
Head of Credit Markets
Regions Business Capital



Lawrence Chua
Managing Director,
Ares Management LLC



Oscar Rombola
Managing Director,
Freight Factoring,
eCapital Corp.

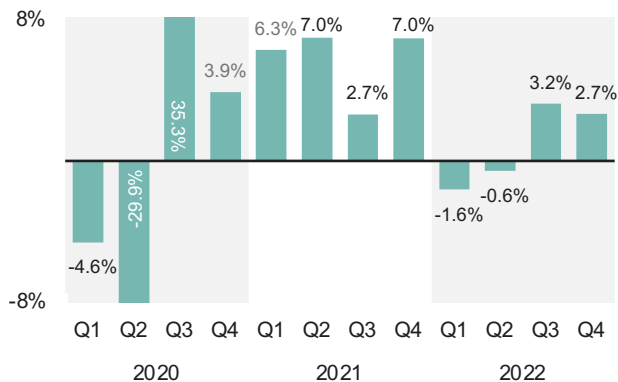
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Macroeconomic Context

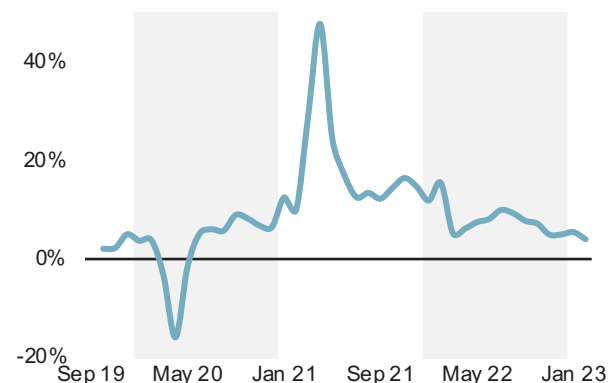
Real GDP (Quarterly) – % Change QoQ SAAR

Bureau of Economic Analysis



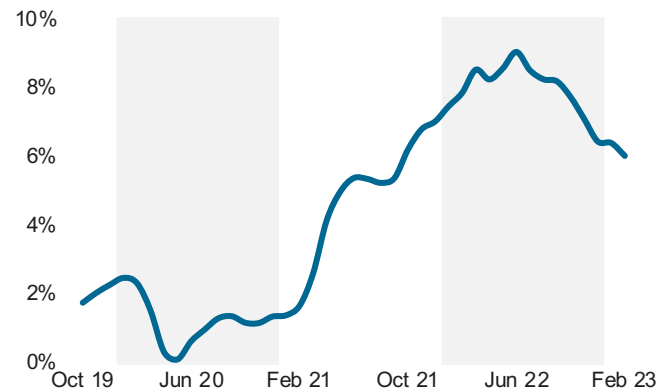
Retail Sales (Monthly) - % Change YoY

Census Bureau



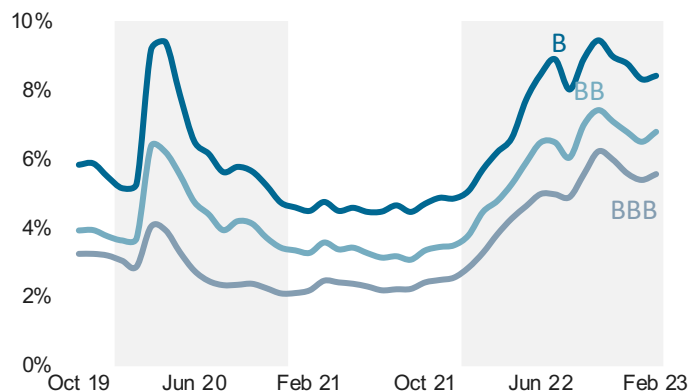
Consumer Price Index - % Change YoY

Bureau of Labor Statistics



Effective Yield (%) on Corporate Bonds – Monthly Average

ICE BofA Indices



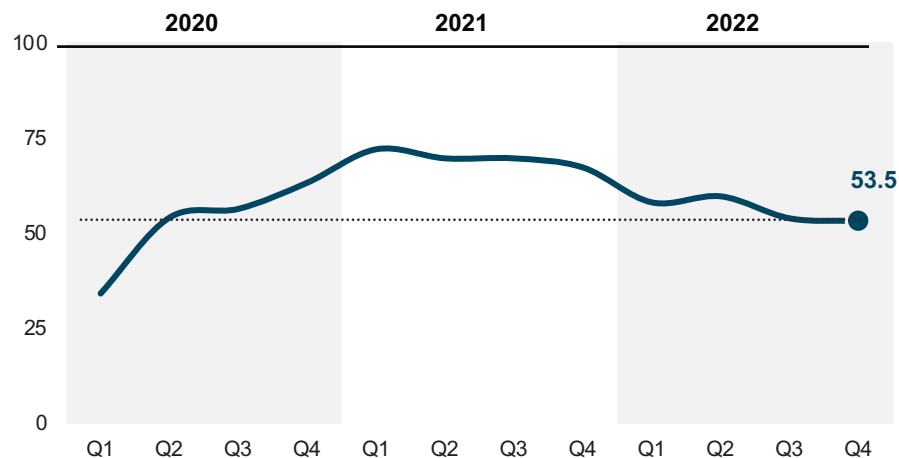
- So far, the U.S. economy has managed to avoid a recession but faces substantial headwinds. Persistently high inflation, sustained rounds of interest rate increases, and geopolitical tensions are all weighing on activity. The fallout from SVB's collapse and the ensuing financial system volatility will likely add further stress to the economy.
- The U.S. economy closed 2022 with two quarters of growth. Driving the 2.7% growth in Q4 2022 were solid consumer spending and private inventory growth that outweighed a pullback in residential investment.
- Headline CPI hit 6.0% YoY in February. While the headline index has declined since peaking in June, it remains well above the Federal Reserve's desired level and measures of underlying inflation have yet to show sharp declines.
- Persistent inflation has forced the FOMC to lift interest rates at its fastest pace in decades. With rates hitting 5.0%, equity markets, housing, and spending on capital investment will remain under pressure.
- The labor market remains the hottest aspect of the U.S. economy, creating over 800,000 jobs in January and February.

Bank ABL & Factoring Business Lender Confidence Index

Bank Lender Confidence Index

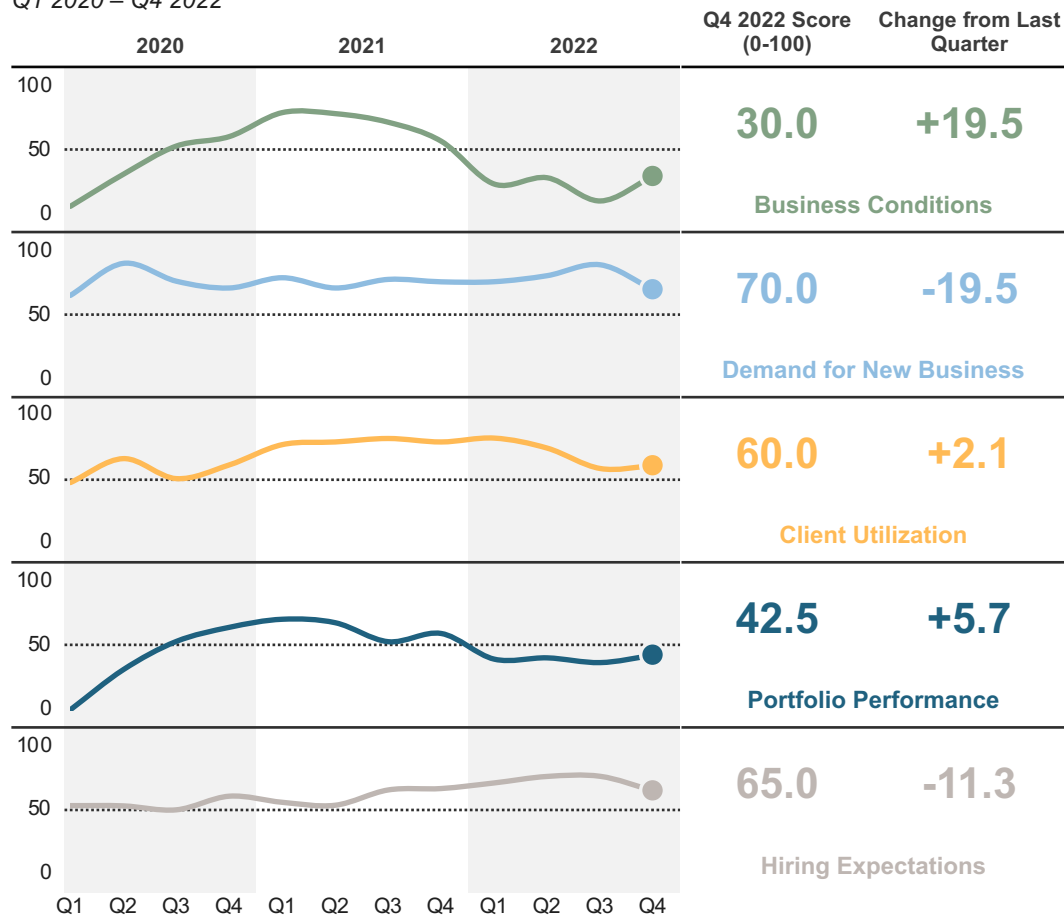
Combined Lender Sentiment Score (0 -100)

Q1 2020 – Q4 2022



- **Bank lenders** assessed aspects of their business and the broader ABL market over the next quarter. Scores above 50 signal improvements, below 50 indicate declines, and scores at 50 imply a condition will remain the same.
- **Overall bank confidence edged down**, with the combined lender sentiment score dipping by 0.7 points.
- Banks had the **most positive expectations** around demand for new business, hiring, and client utilization. However, expectations for both demand and hiring dropped from Q3.
- Banks **expected declines** with business conditions and portfolio performance.

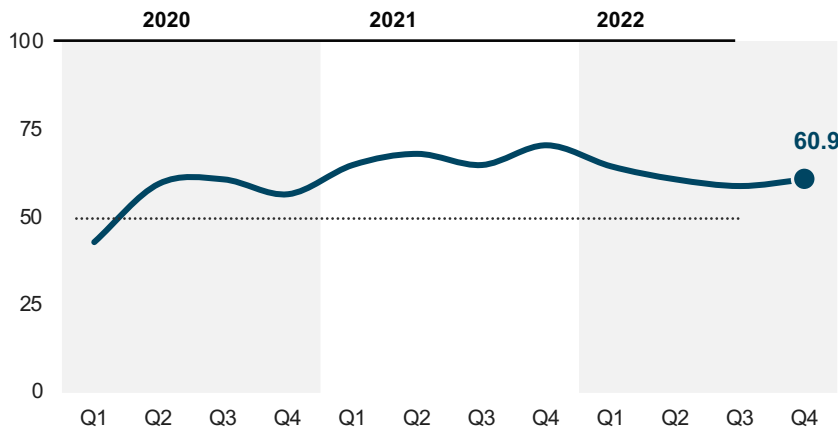
Lender Sentiment Indices
Q1 2020 – Q4 2022



Nonbank ABL & Factoring Business Lender Confidence Index

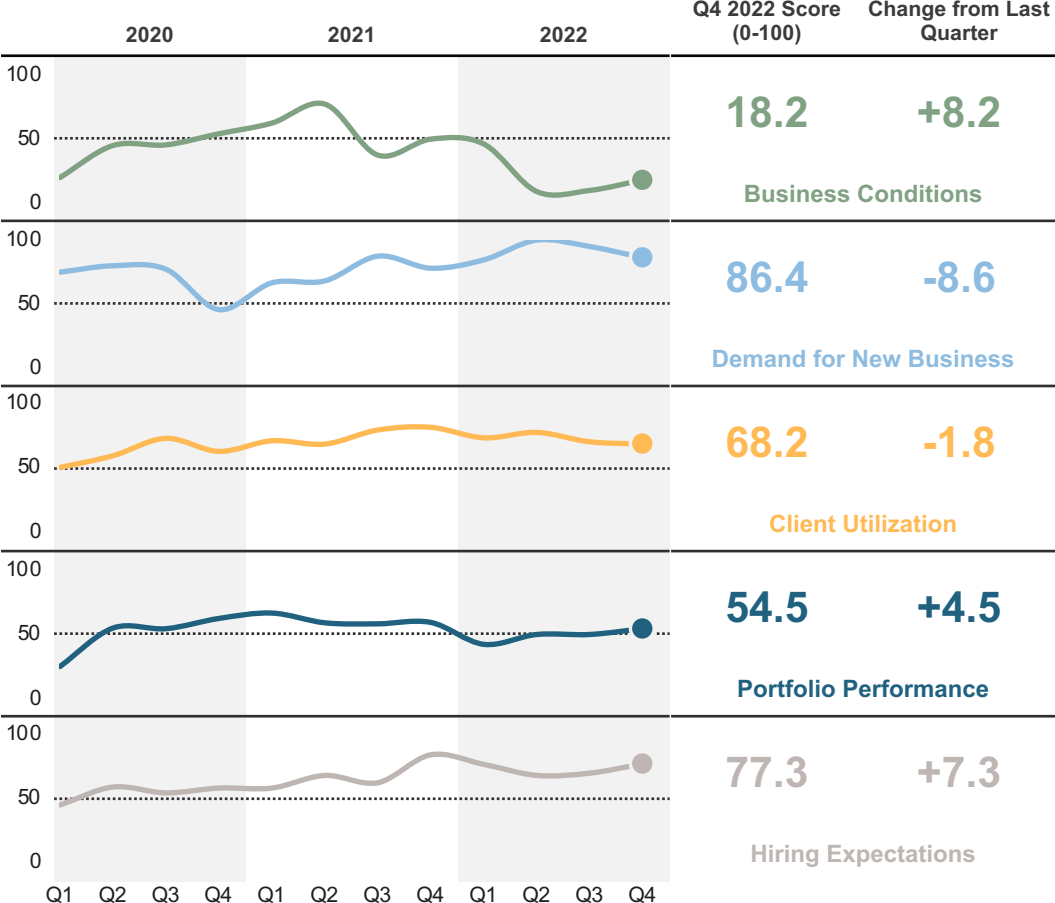
Non-Bank Lender Confidence Index

Combined Lender Sentiment Score (0 -100)
Q1 2020 – Q4 2022



- **Non-bank lenders** assessed aspects of their business and the broader ABL market over the next quarter. Scores above 50 signal improvements, below 50 indicate declines, and scores at 50 imply a condition will remain the same.
- **Overall non-bank confidence rose slightly**, with the combined lender sentiment score increasing by 1.9 points.
- Non-banks had the **most positive expectations** for demand for new business, which remained slightly below the multi-year high from Q2. Expectations for hiring and client utilization also remained in the improvement territory.
- While non-banks had **negative expectations** for business conditions, they improved for the second consecutive quarter.

Lender Sentiment Indices
Q1 2020 – Q4 2022



Section 1: Asset-Based Loans

BY THE NUMBERS: ABL AND FACTORING
ANNUAL DATA SURVEY REVIEW

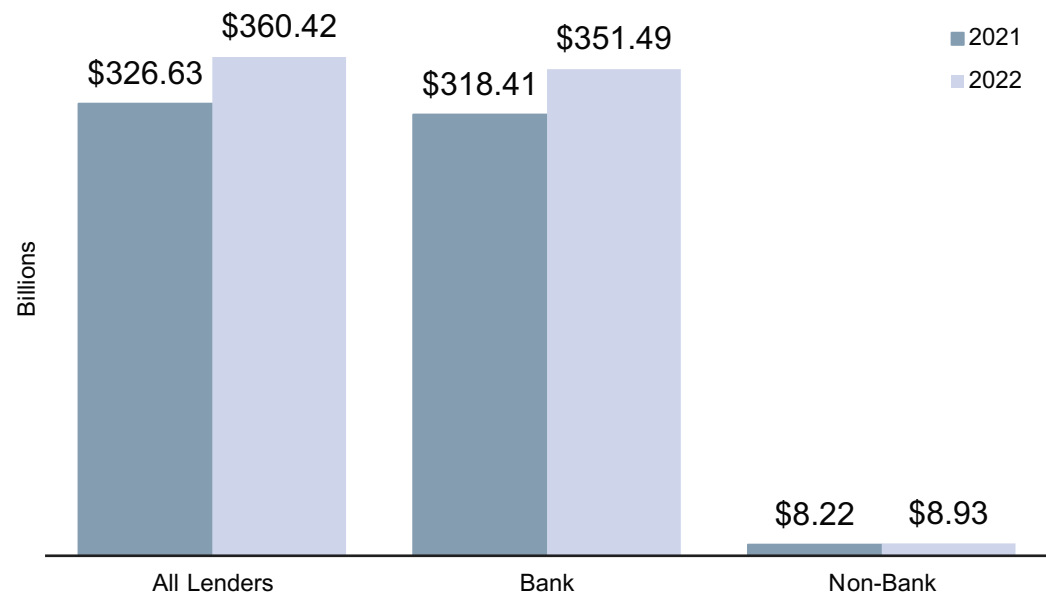


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ABL Credit Commitments Y/Y

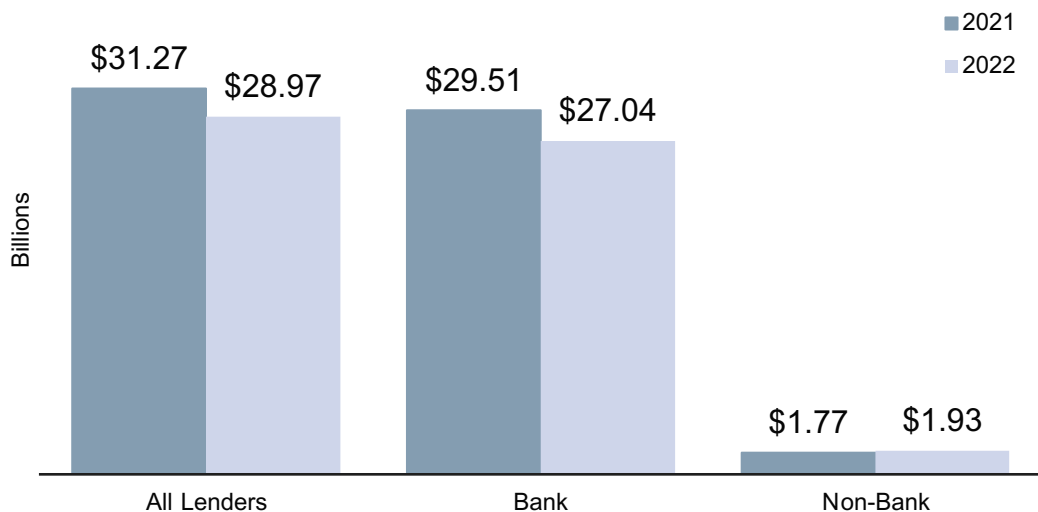
Total Credit Commitments (\$MM)



Total credit commitments rose across all lender groupings, increasing by 10.3% for all lenders, 10.4% for banks, and 8.7% for non-banks.

New Commitments and Runoff

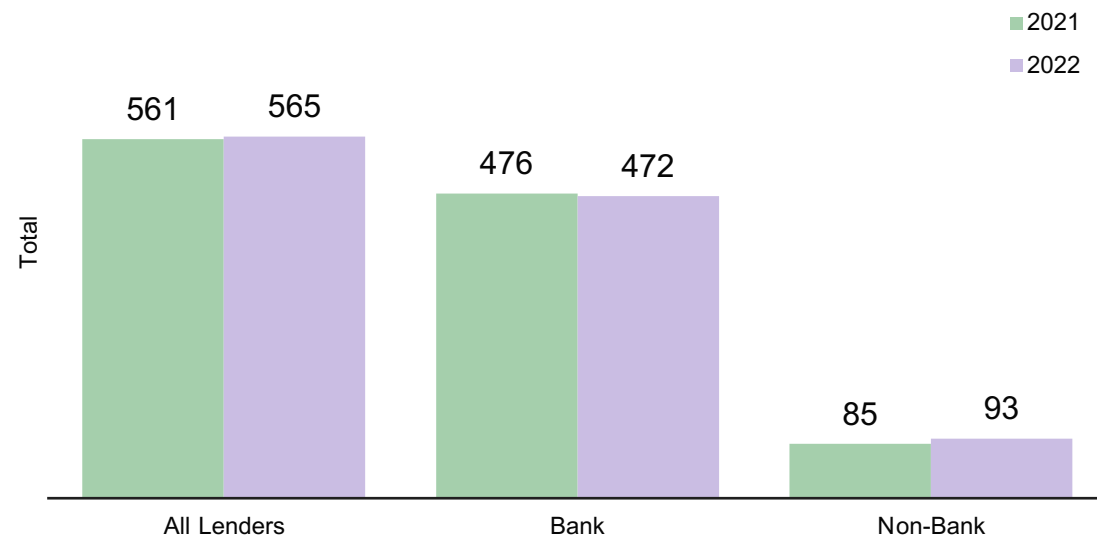
Total New Commitments with New Clients



Average new commitment size with new clients rose by 13.6% for all lenders, 5.4% for banks, and 26.5% for non-banks.

ABL Credit Commitments Y/Y

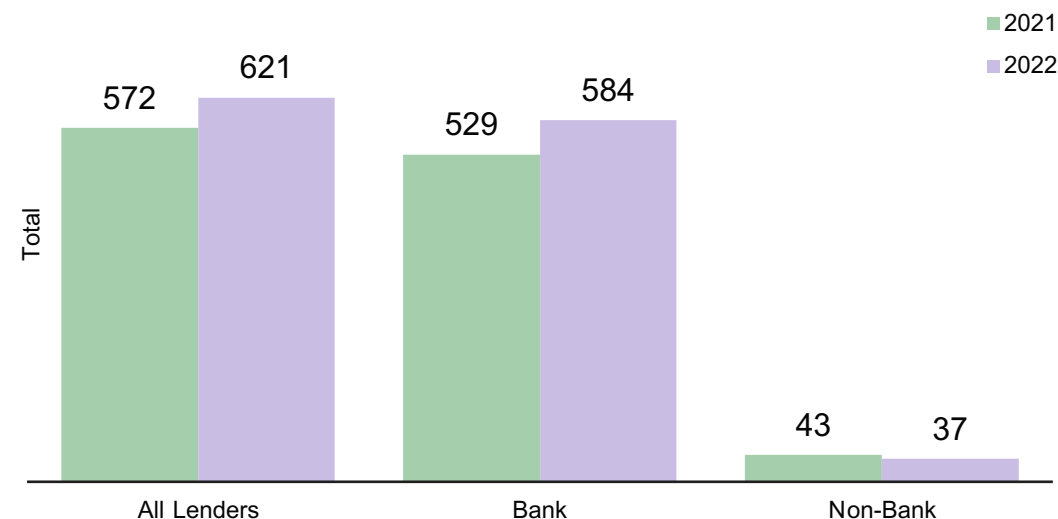
Number of New Commitment Deals with New Clients



Average new commitment size with new clients rose by 13.6% for all lenders, 5.4% for banks, and 26.5% for non-banks.

The number of new deals with new clients ticked up by 0.7% for all lenders due to a 9.4% increase for non-banks. For banks, the number of new deals dipped by 0.8%.

Number of Commitment Expansions/Extensions with Existing Clients



Average commitment extensions/expansions with existing clients increased across all categories: all lenders by 9.3%, banks by 5.2%, and non-banks by 12.2%.

The number of new commitment expansions/extensions with existing clients rose by 8.6% for all lenders and 10.4% for banks, while non-banks reported a 14.0% drop.

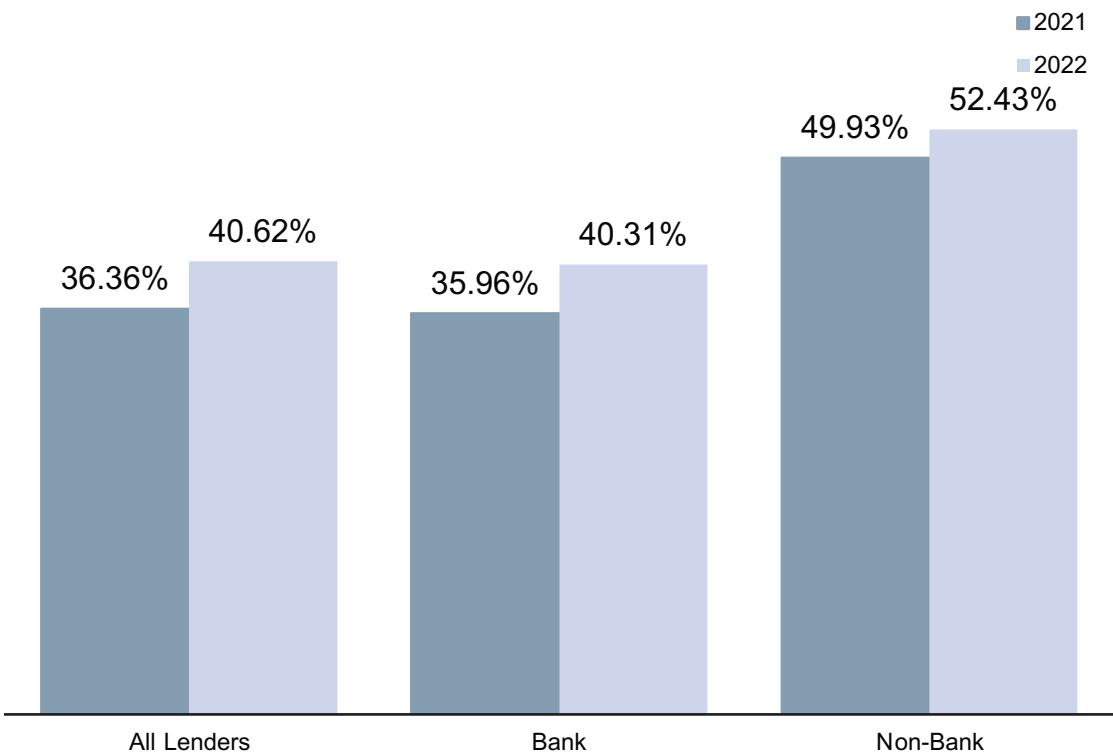
ABL Outstandings

Total Outstandings



Total outstandings increased across all categories: rising for all lenders by 25.3%, banks by 25.5%, and non-banks by 19.4%. As apparent in utilization rates, the growth in outstandings exceeded the growth in commitments.

Credit Line Utilization

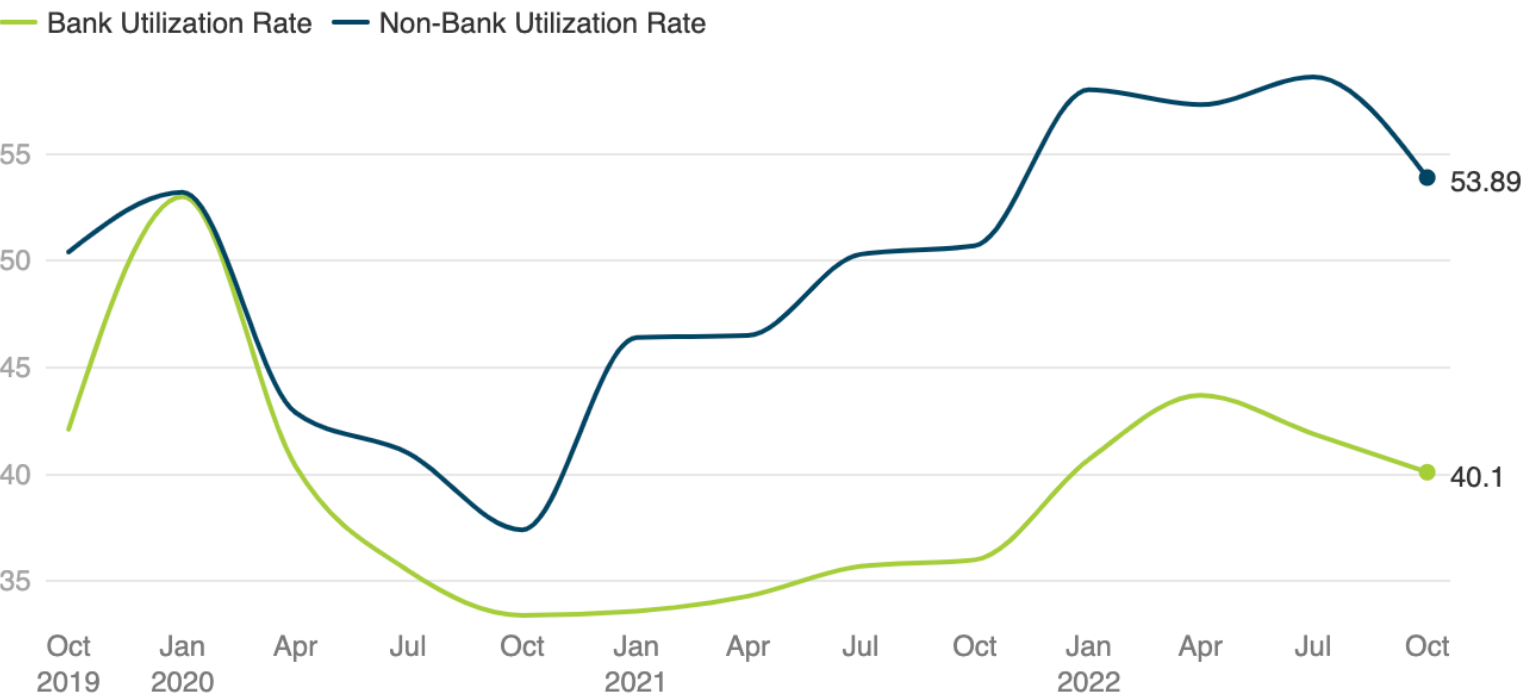


Receivables and inventory comprised the majority of the borrowing base for all lenders in both 2021 (91.6%) and 2022 (89.4%).

ABL Utilization Rate Trends (Q/Q as of Q42022)

Credit Line Utilization

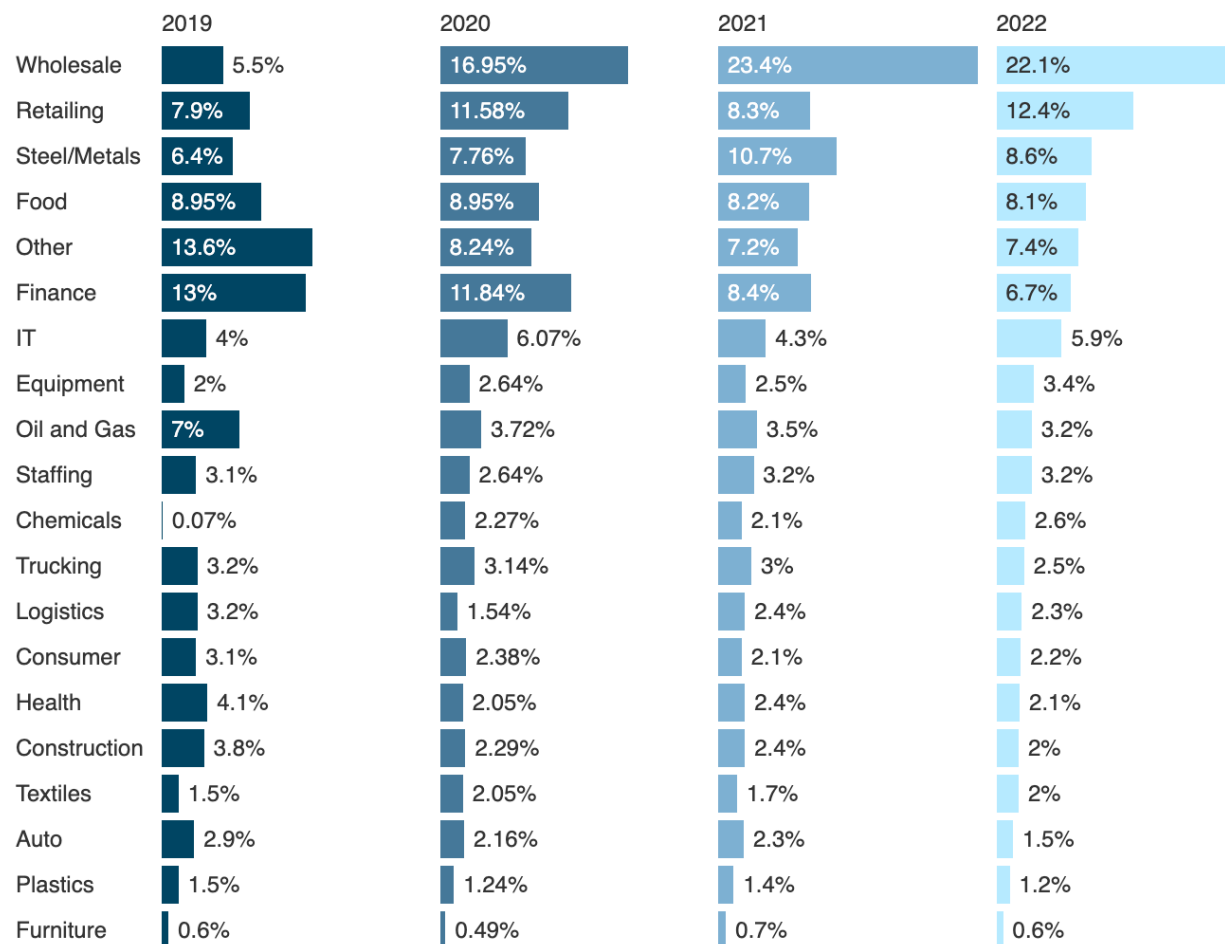
Loans Outstanding as Percentage of Total Credit Commitments



% of Outstandings by Client Industry for All Lenders

% of Outstandings by Client Industry for All Lenders

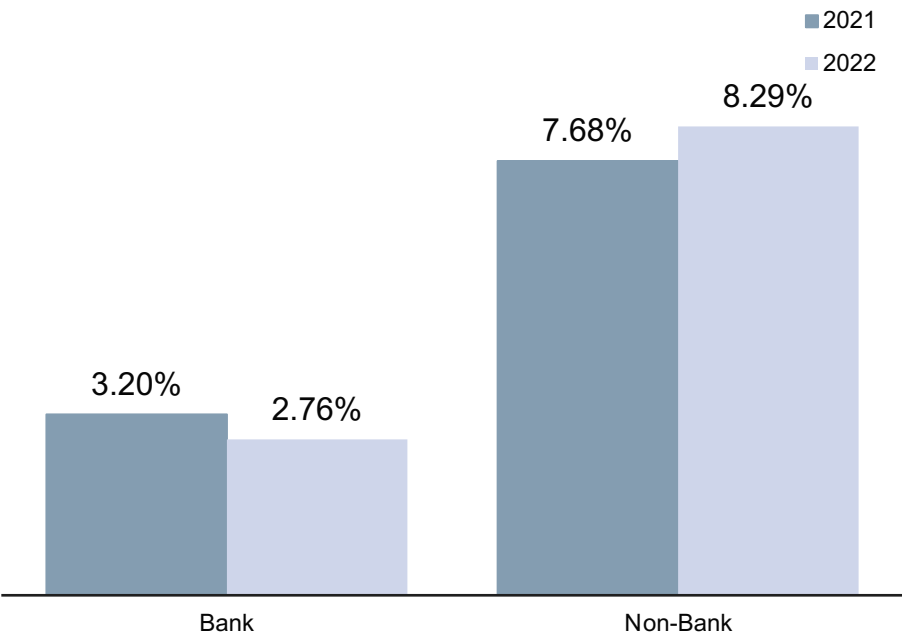
Sort by year 2022 - highest to lowest



Retail saw the most growth as a client industry, while steel/metals had the greatest decline. Wholesale (decreased), finance (decreased), and IT (increased) also had relatively pronounced changes, whereas other industries remained at relatively consistent levels.

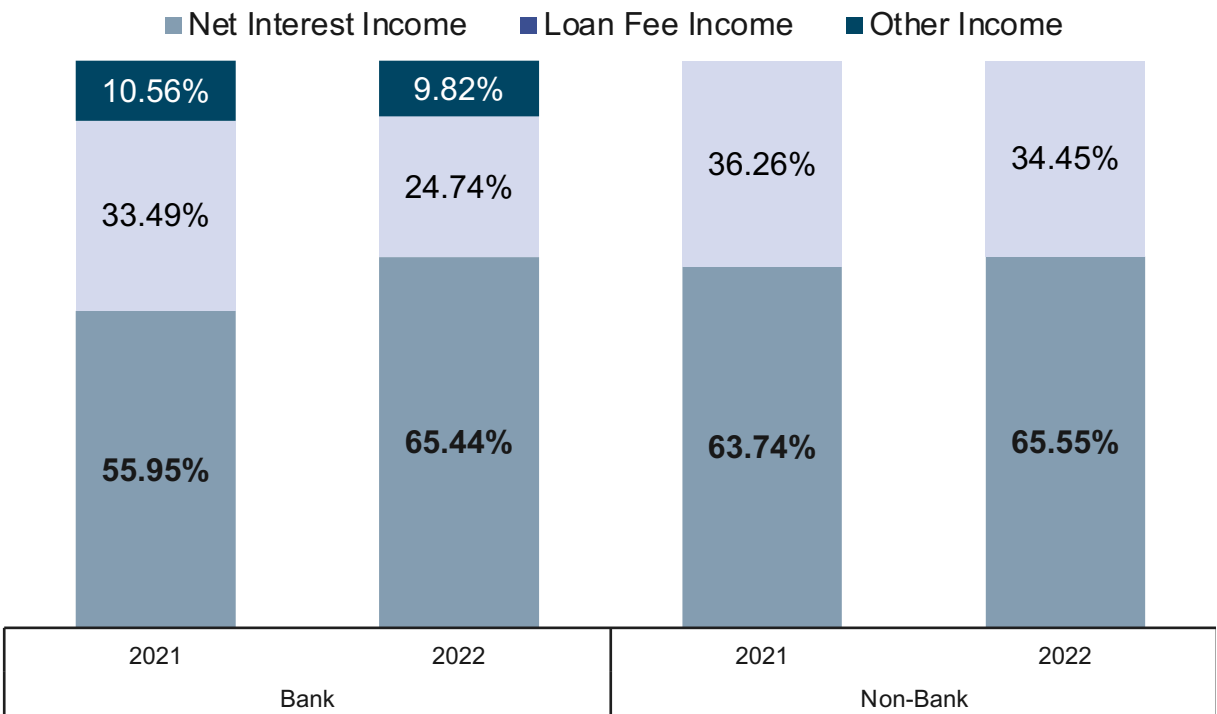
ABL Revenues and Expenses

Total Revenues as % of Outstandings



Total revenues relative to outstandings declined 44 basis points for bank lenders and 61 bp for non-bank lenders.

% of Lender Revenues by Category

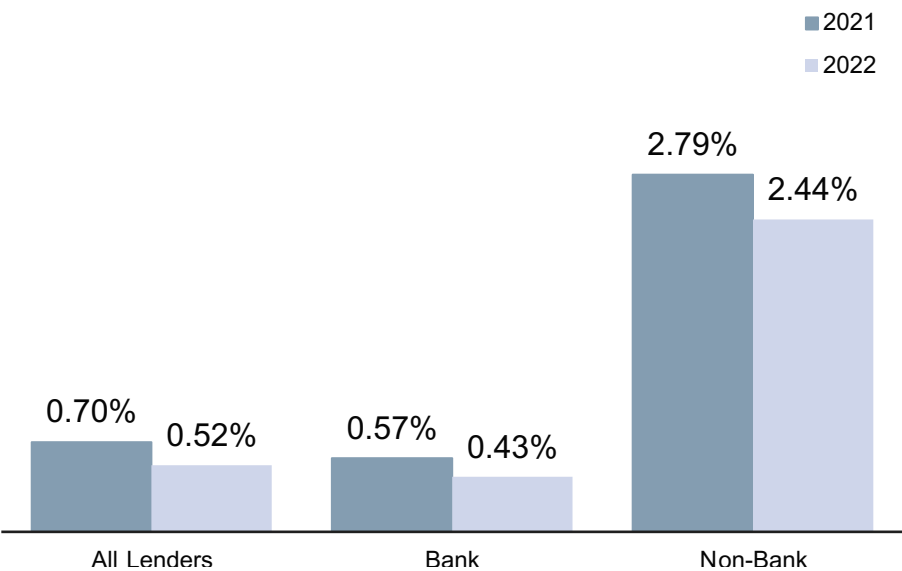


For bank lenders, net interest income's share of total revenue increased by 9.5 percentage points, whereas loan fee income decreased by 8.7 pp and other income decreased by 0.7 pp.

For non-bank lenders, the share of net interest income increased by 1.8 pp and the share of loan fee income declined by the same amount.

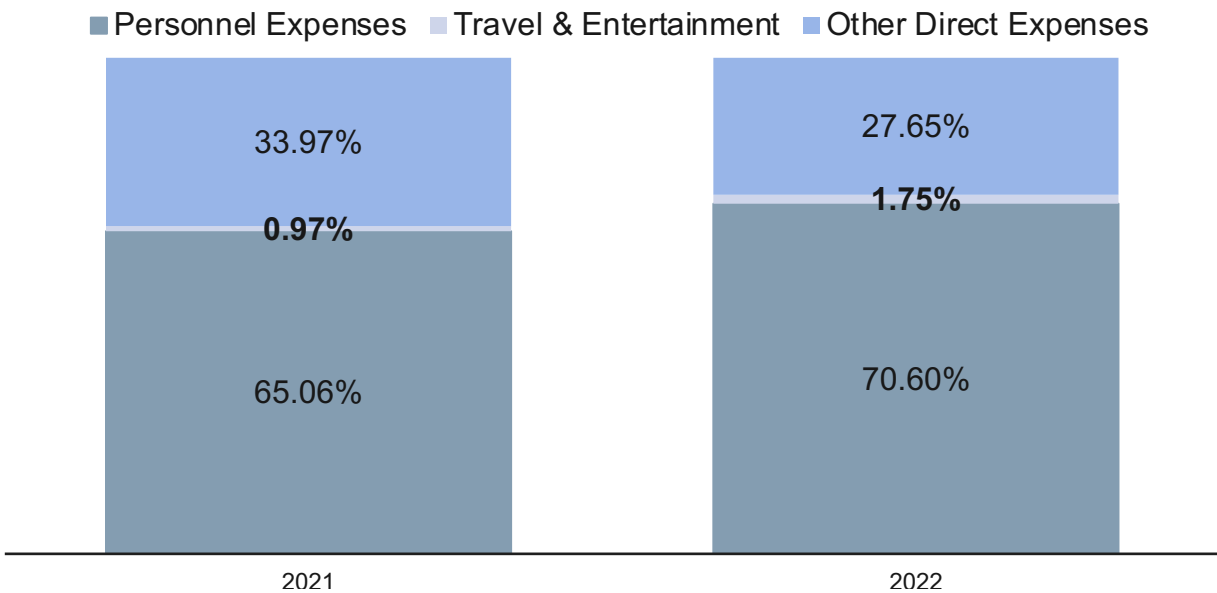
ABL Revenues and Expenses

Total Direct Expenses as % of Outstandings



Direct expenses relative to outstandings decreased for all lending categories, dropping by 19 basis points for all lenders, 15 bp for bank lenders, and 35 bp for non-bank lenders.

% of Lender Expenses by Category for All Lenders

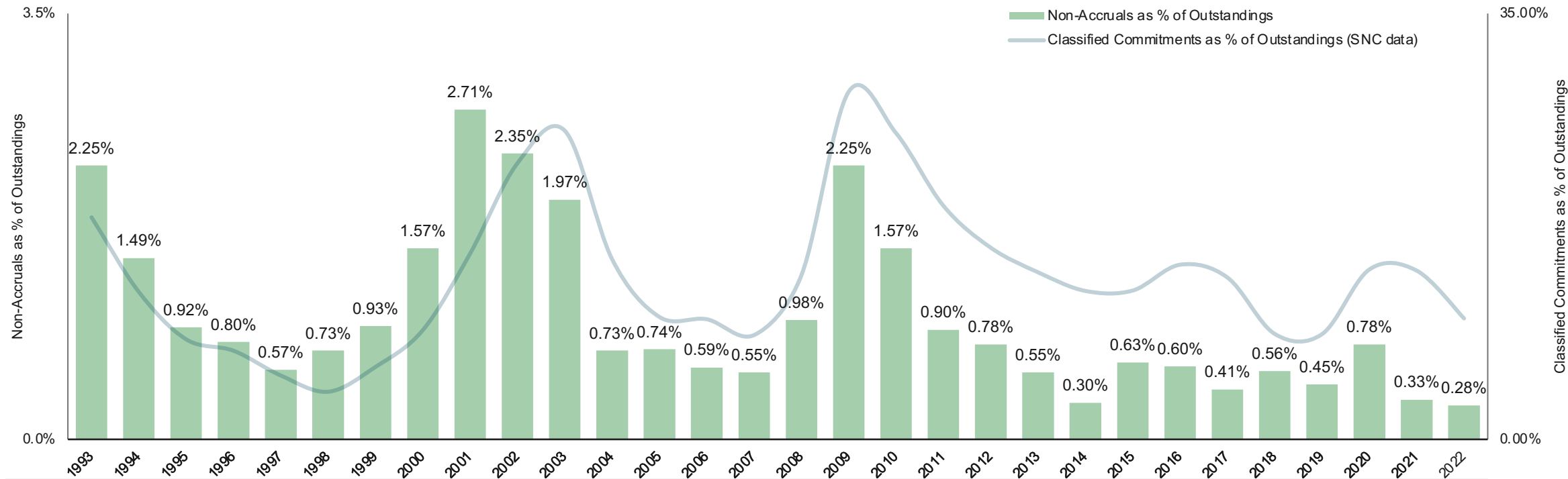


Other direct expenses as a share of total expenses decreased by 6.3 percentage points for all lenders. Personnel expenses increased by 5.5 pp and travel & entertainment expenses retained a relatively small share, but increased slightly — by 0.8 pp.

ABL Non-Accruals 1993-2022

Non-Accruals as % of Outstandings and Classified Commitments as % of Outstandings for Large Syndicated Loans

Classified Commitments as % of Outstandings data from the Shared National Credit (SNC) Report 2022



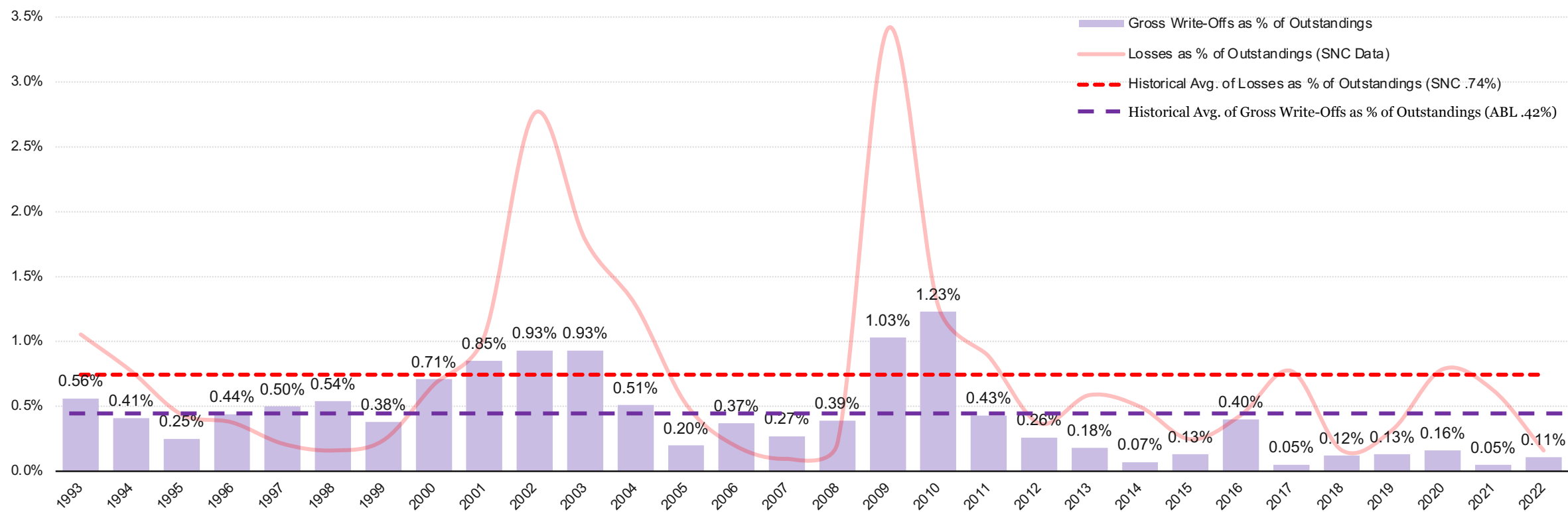
Classified commitments as a percent of outstandings in large syndicated loans and non-accruals as a share of outstandings have followed similar trends since 1993. Both rose around the time of the 2001 and 2009 recessions and, more recently, both ticked upwards at the start of the pandemic in 2020 but fell in 2021 and 2022. The series is now well-below its historical average.

Note: The [SNC report](#) defines classified commitments as those that are “rated substandard, doubtful, and loss.”

ABL Gross Write-Offs 1993-2022

Gross Write-offs as % of Outstandings and Losses as % of Outstandings for Large Syndicated Loans

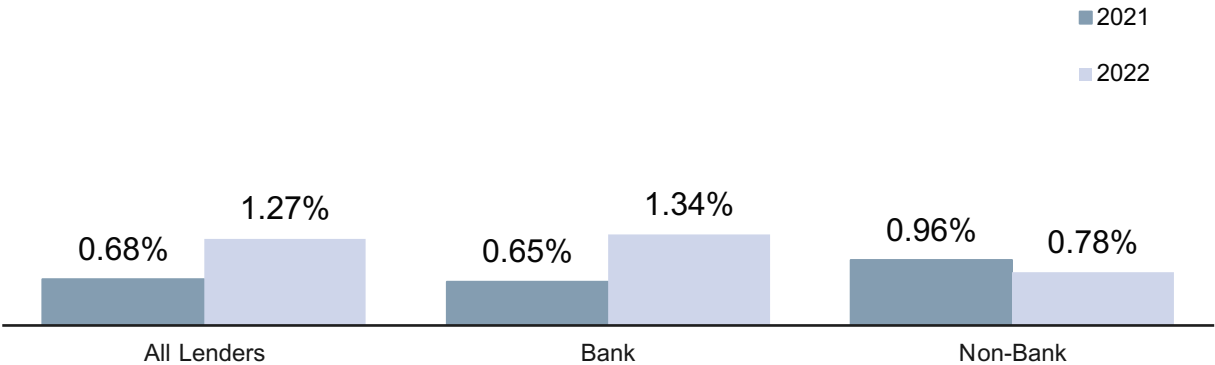
Losses as % of Outstandings data from the SNC Report 2022



Gross write-offs as a share of outstandings have mostly paralleled losses as a percent of outstandings for large syndicated loans. Significant increases in losses in 2001 and 2009 coincided increases in write-offs. In 2022, however, a slight uptick in write-offs coincided with a drop in losses. The series remains substantially below its historical average. Note: The [SNC report](#) defines losses as commitments that “are uncollectible and of so little value that their continuance as bankable commitments is not warranted.”

ABL Provisions

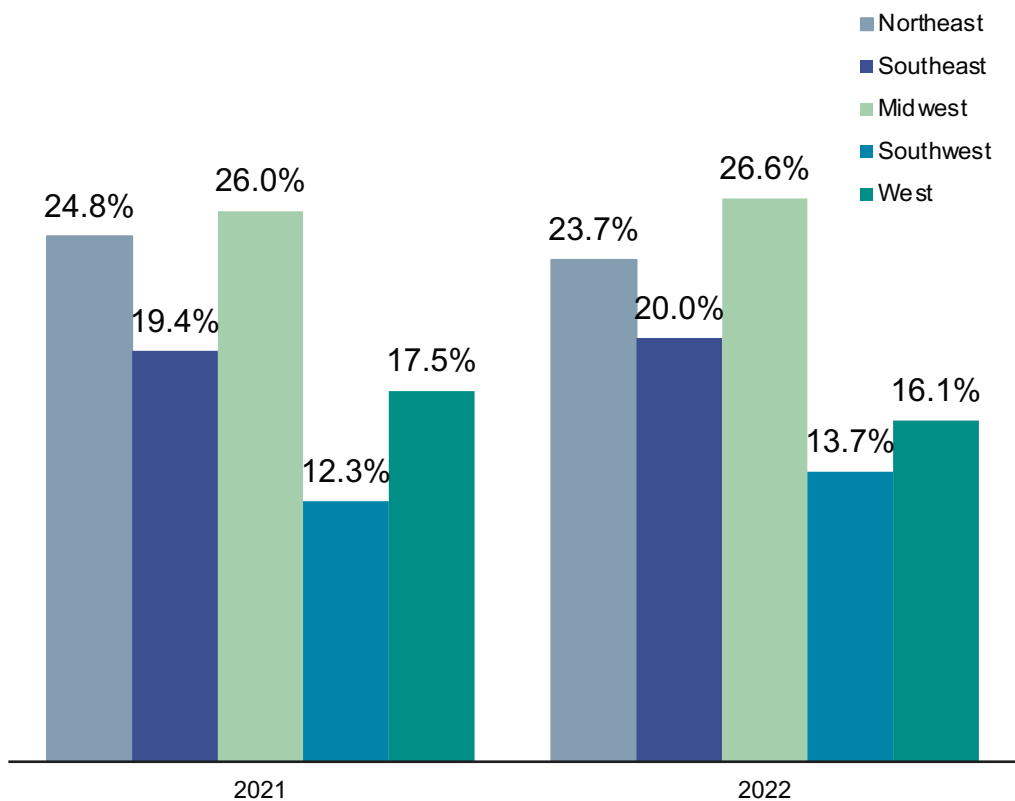
Loan Loss Provisions Balance - End of Period as % of Outstandings



The end of period balance for loan loss provisions relative to outstandings increased by 60 basis points for all lenders and 69 for bank lenders. Non-bank lenders reported an 18 bp decrease.

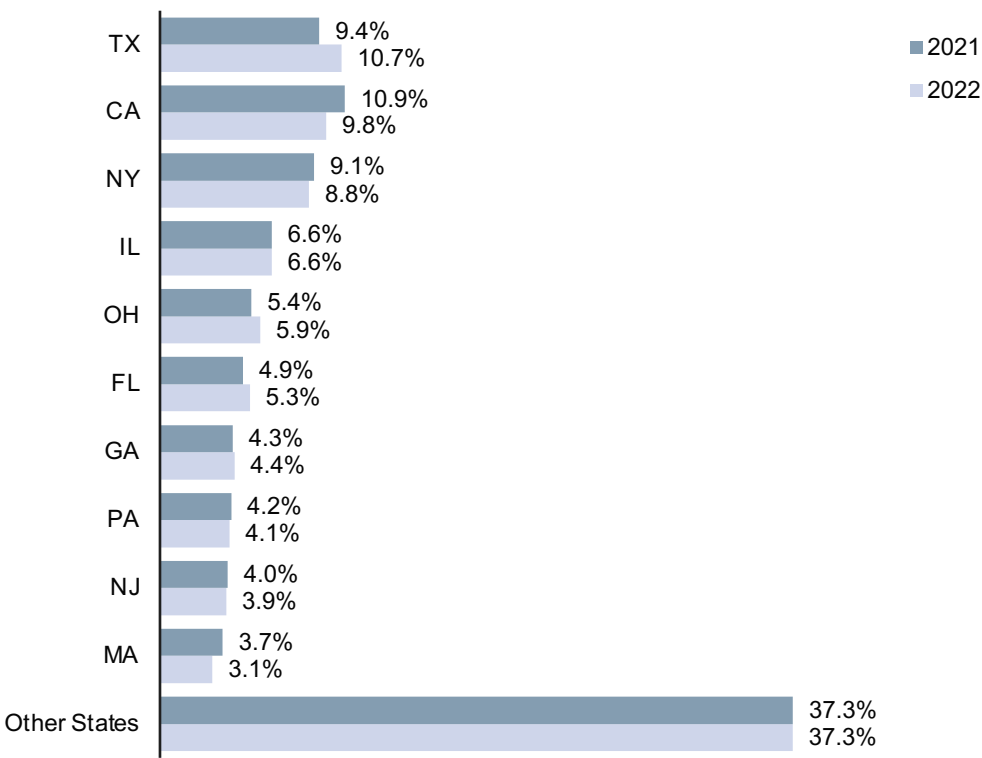
ABL Clients

% of Clients by Region for Bank Lenders



Compared to offices, the regional distribution of U.S. bank lender clients maintained similar levels from 2021 to 2022. The Southwest gained the most, increasing its share by 1.4 percentage points and the West dropped the most, also declining by 1.4 pp.

Top 10 States by % of Total U.S. Clients for Bank Lenders



The top 10 state shares of U.S. bank clients remained relatively consistent, though Texas took over the top spot. California's share declined the most in the top 10, while Texas' share increased the most.

Section 2: Factoring

BY THE NUMBERS: ABL AND FACTORING
ANNUAL DATA SURVEY REVIEW

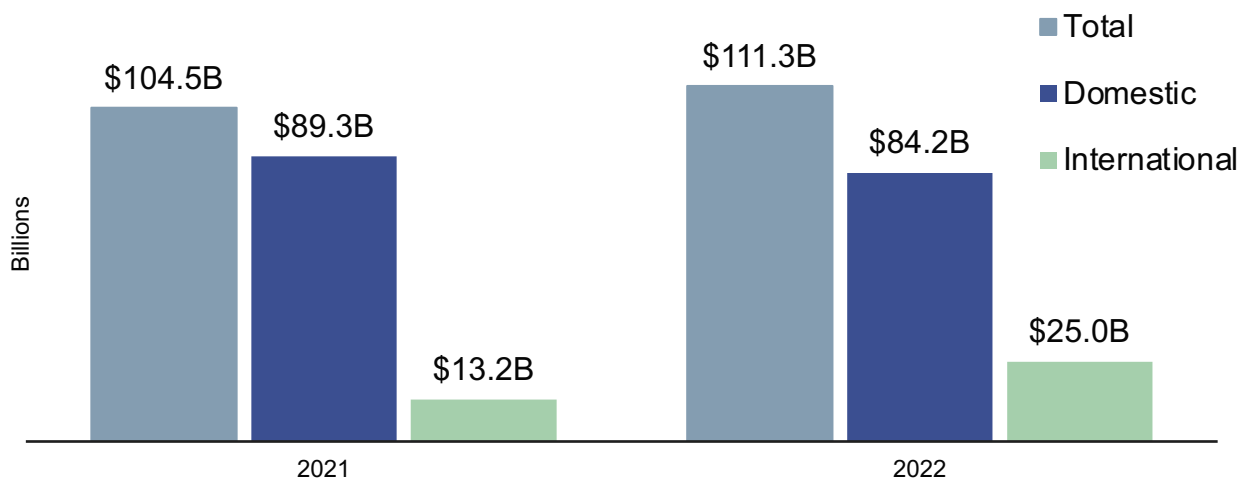


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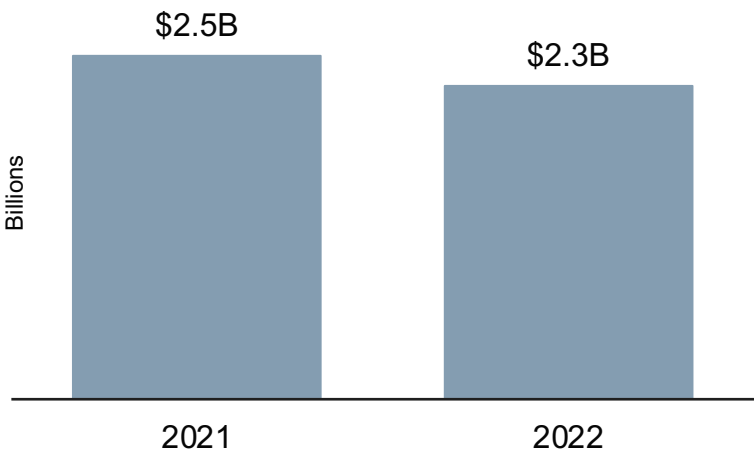
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Factoring Volume and Funds in Use

Factoring Volume



Total Funds in Use

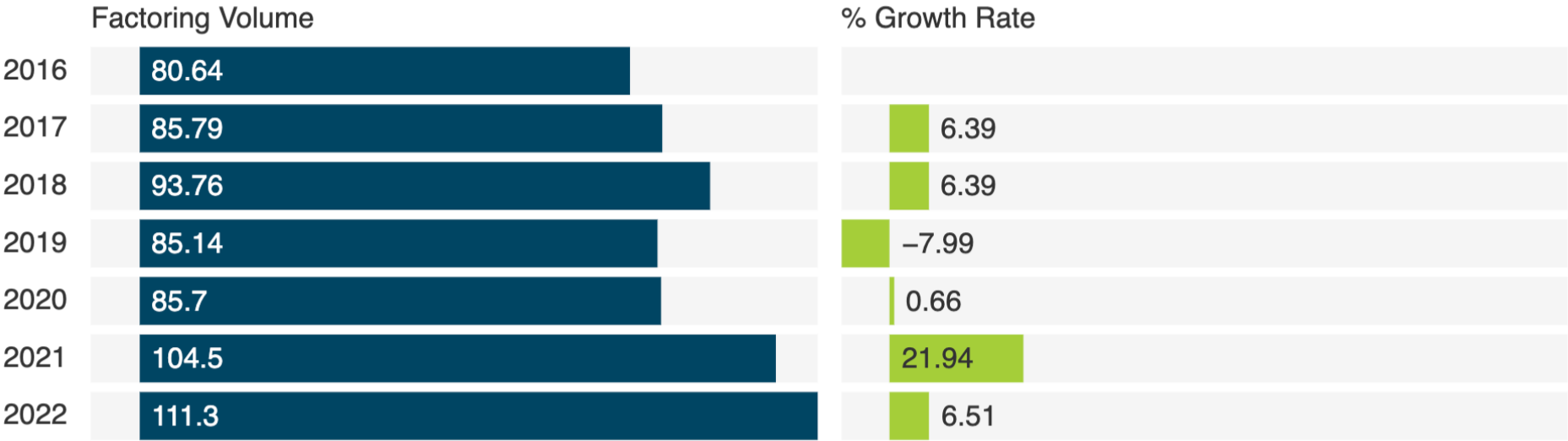


Factoring volume increased 6.5% from 2021 to 2022, driven by an 89.8% gain in international volume. Domestic volume dropped by 5.7%.
Total funds in use fell by 8.8%.

Factoring Volume Long-Term Trend

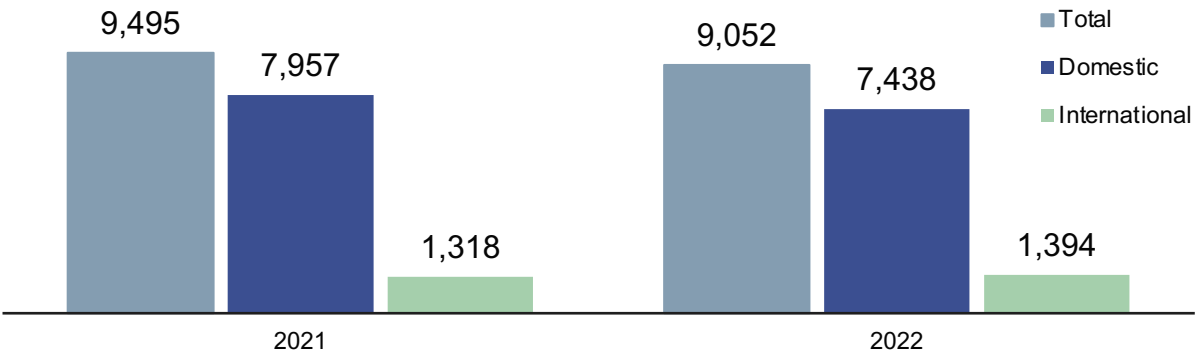
Factoring Volume (2016-2022)

Factoring Volume % Growth Rate

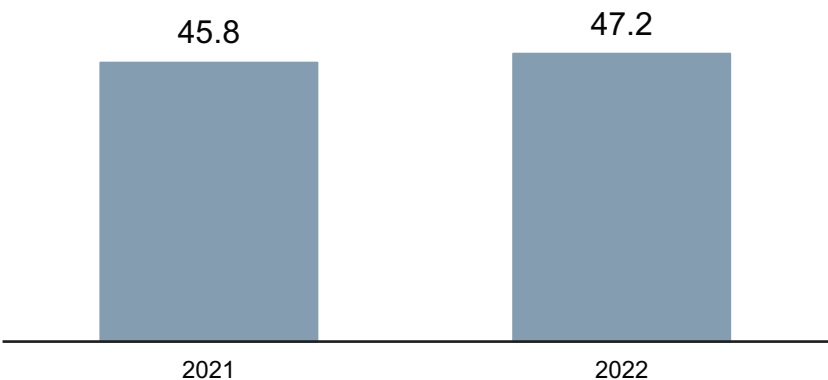


Factoring Clients and Days Outstanding

Number of Factoring Clients



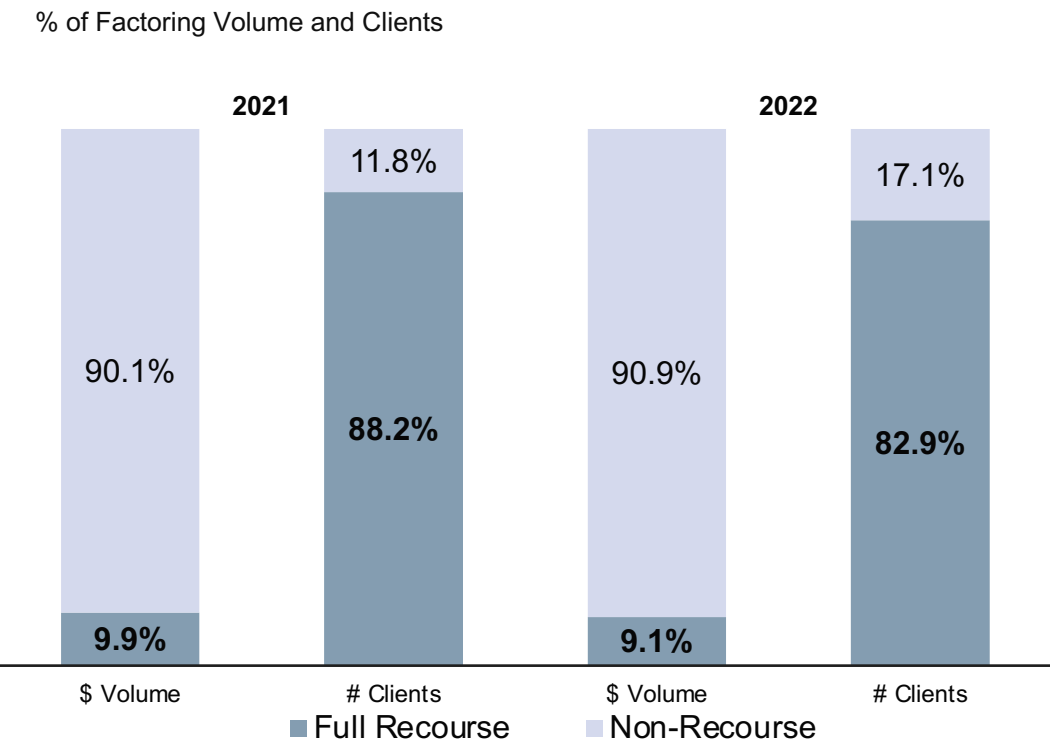
Average Days Outstanding



Total factoring clients decreased 4.7% from 2021 to 2022, with domestic clients dropping 6.5% but international clients increasing 5.8%.

Average days outstanding rose 3.1% from 2021 to 2022.

Factoring Recourse and Non-Recourse



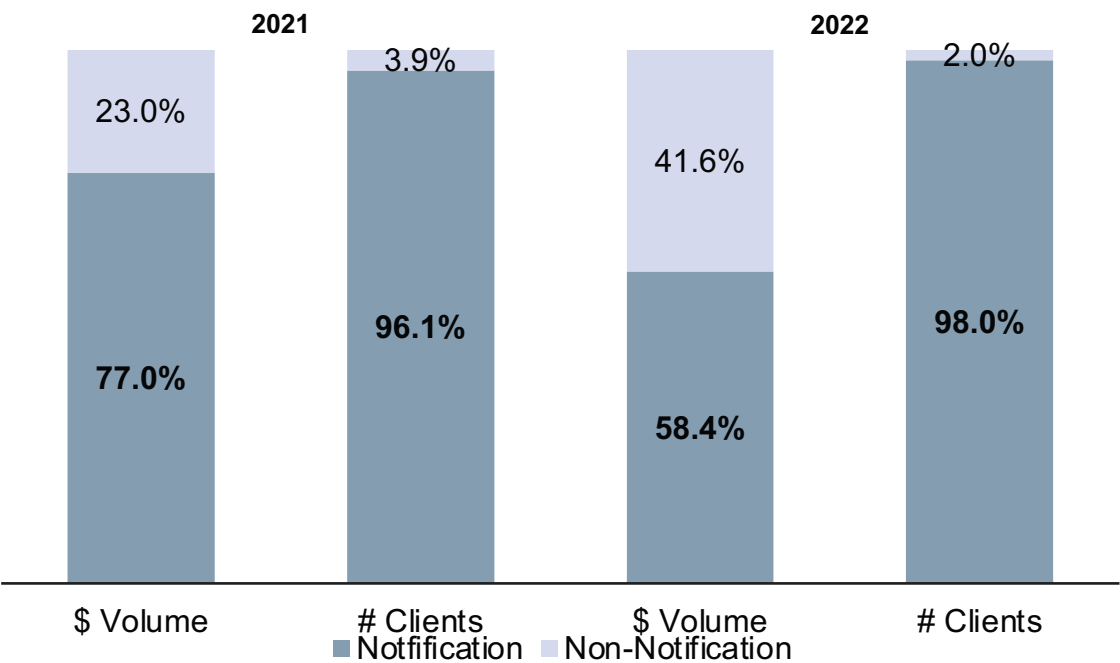
Non-recourse factoring increased in both share of volume and clients from 2021 to 2022, though full recourse factoring continues to comprise a minority of volume and majority of clients.

Notably, smaller volume factors reported far higher full recourse volume at 98.1% for 2021 and 98.8% for 2022.

No respondents reported partial recourse volume or clients.

Factoring Notification and Non-Notification

% of Factoring Volume and Clients

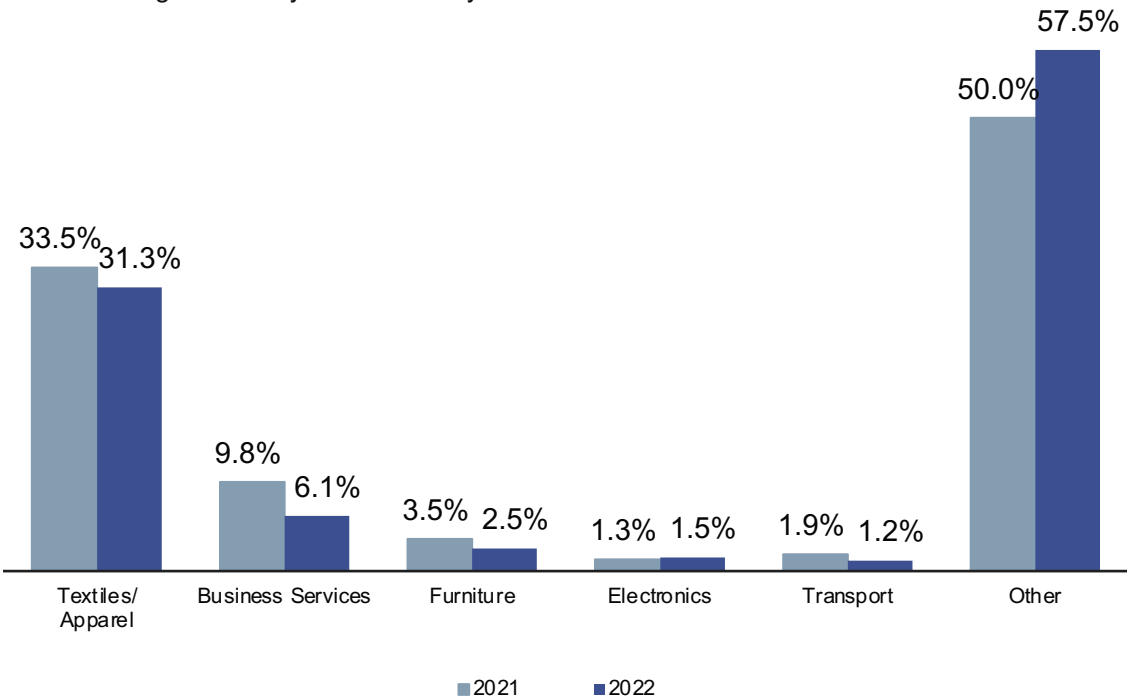


Notification factoring declined substantially in share of volume but slightly increased in share of clients.

Smaller volume factors reported a smaller shift toward non-notification factoring, with notification factoring comprising 86.1% of their volume in 2021 and 75.6% in 2022.

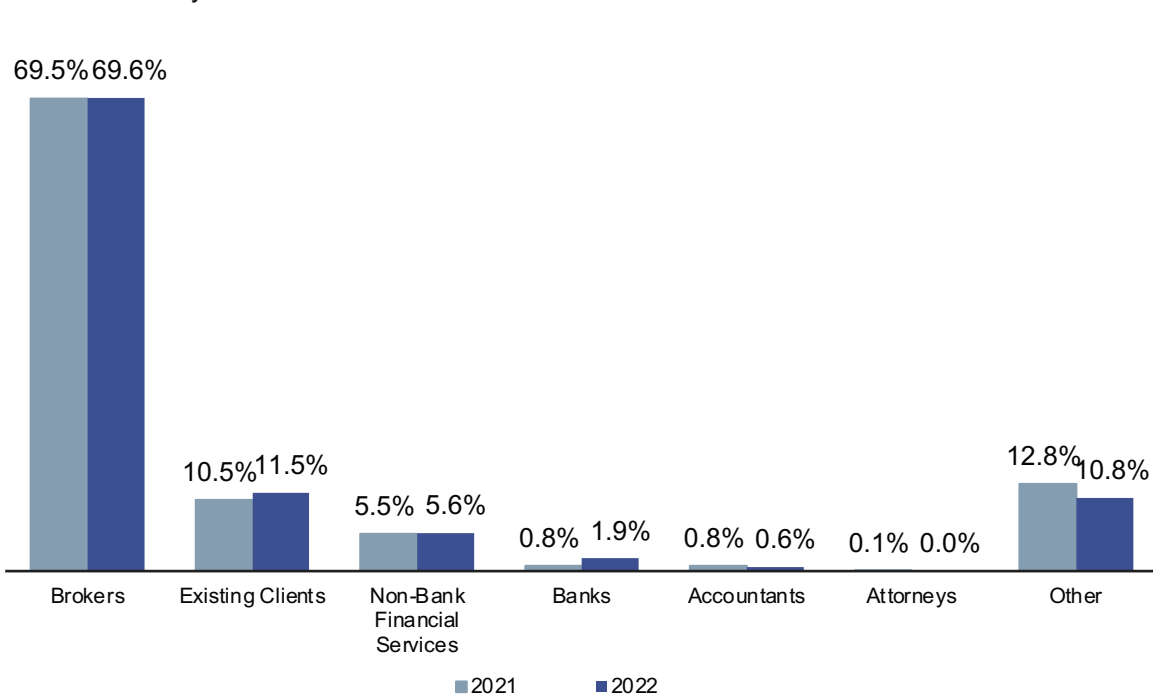
Factoring Client Industries & Referral Sources

% of Factoring Volume by Client Industry



The “other” category was the only industry category to increase its share of factoring volume from 2021 to 2022. Factors reporting “other” specified industries including construction, food and beverage, home furnishings and houseware, marketing, oil & gas, and staffing. Of all the industries, business services’ share of factoring volume fell the most.

% of New Clients by Referral Source

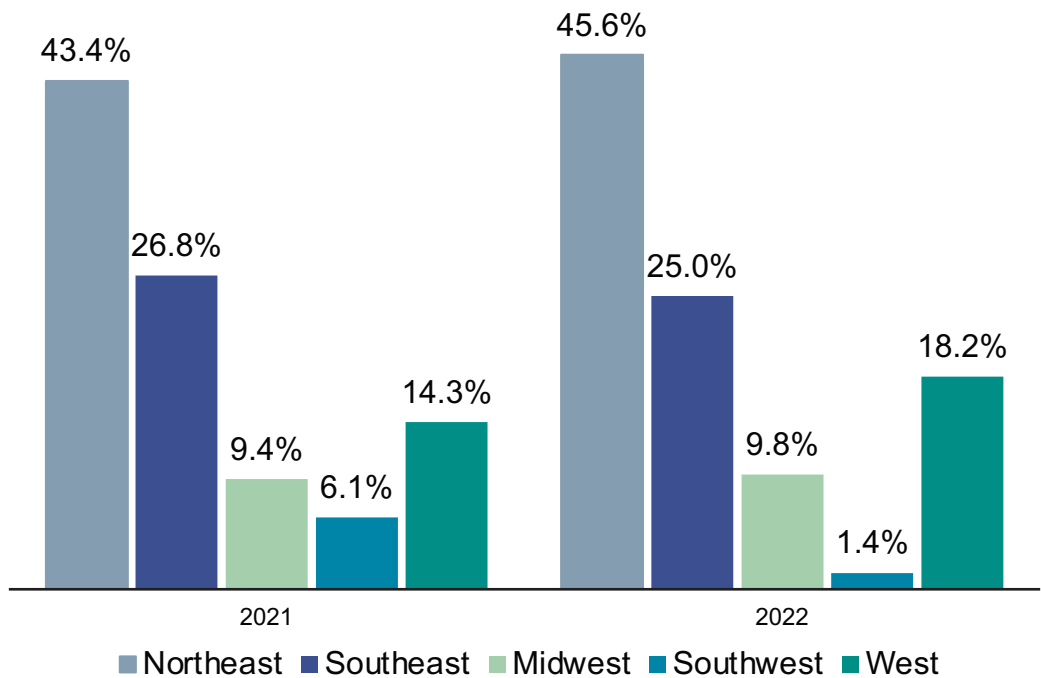


The top source of referrals was unchanged in 2022, as brokers grew their share of total referrals. Banks and existing clients expanded their share of the total by the largest and second largest amounts, respectively. Of all the sources, the share of “other” referrals dropped the most.

Factoring Volume & Clients by Region

Volume by Region

% of U.S. Factoring Volume by Region

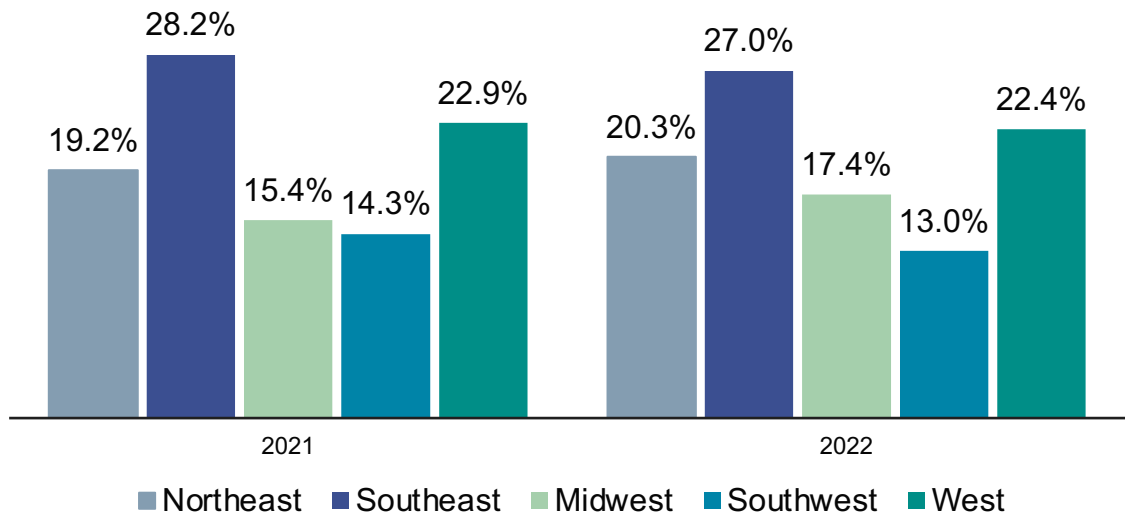


The regional distribution of U.S. factoring volume shifted slightly, with the Northeast, Midwest, and West gaining in their share of U.S. volume and the Southeast and Southwest declining.

Volume increased the most in the West and decreased the most in the Southwest. Despite these shifts, the relative position of each region did not change.

Clients by Region

% of U.S. Factoring Clients by Region

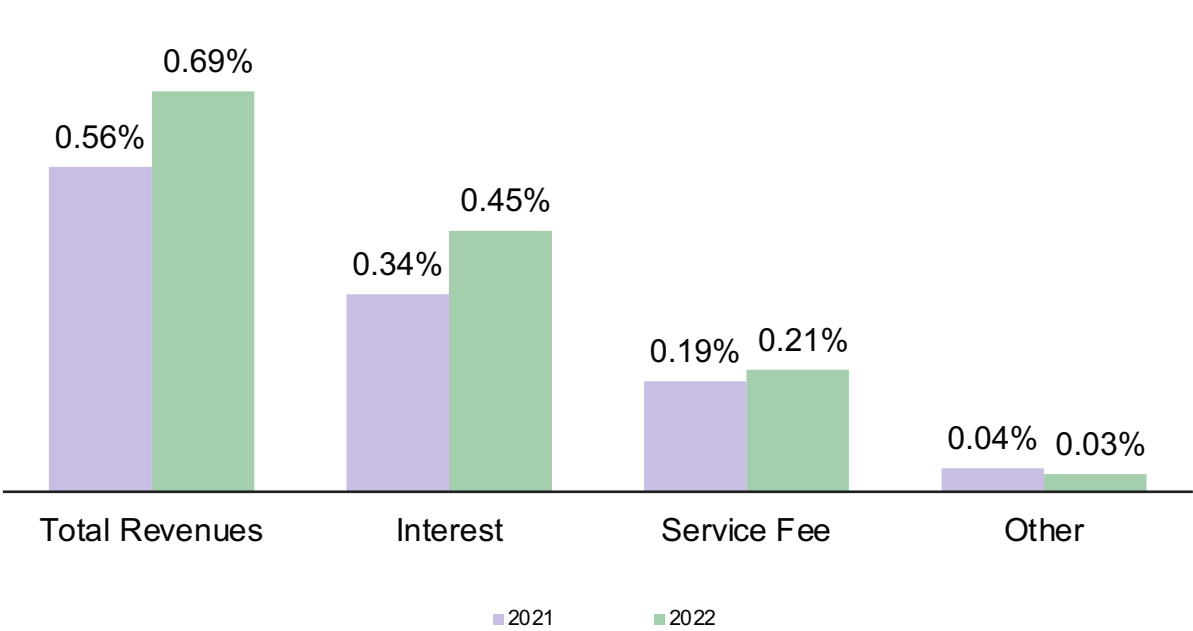


The regional distribution of clients was largely unchanged from 2021 to 2022, with the Southeast maintaining the greatest client share and other four regions retaining their relative positions.

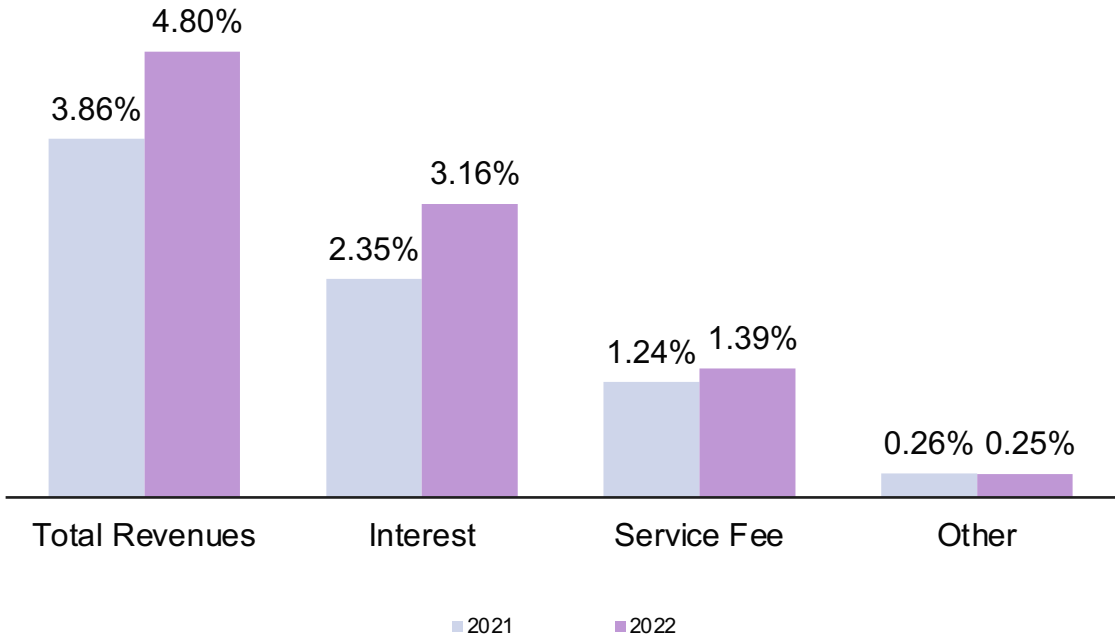
The Midwest experienced the largest increase while the Southwest and Southeast declined the most.

Factoring Revenue

Revenues as % of Volume

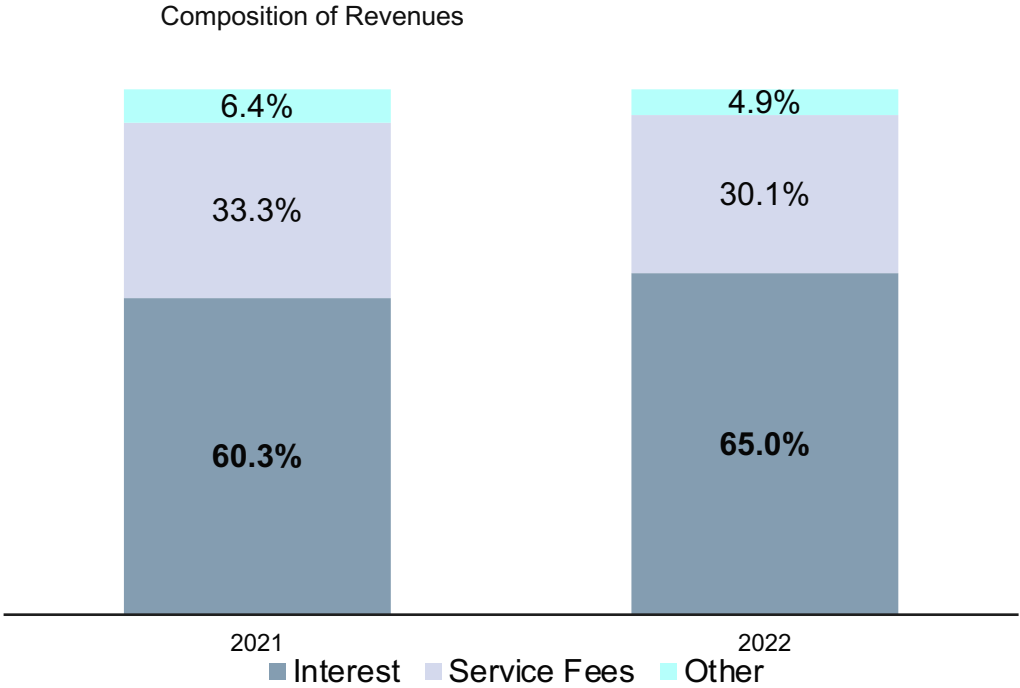


Revenues as % of Average Earning Assets



Total revenues increased as both a percent of volume and of average earning assets from 2021 to 2022, with interest and service fee revenue contributing to the growth. Other revenue declined as a percent of both volume and of average earning assets.

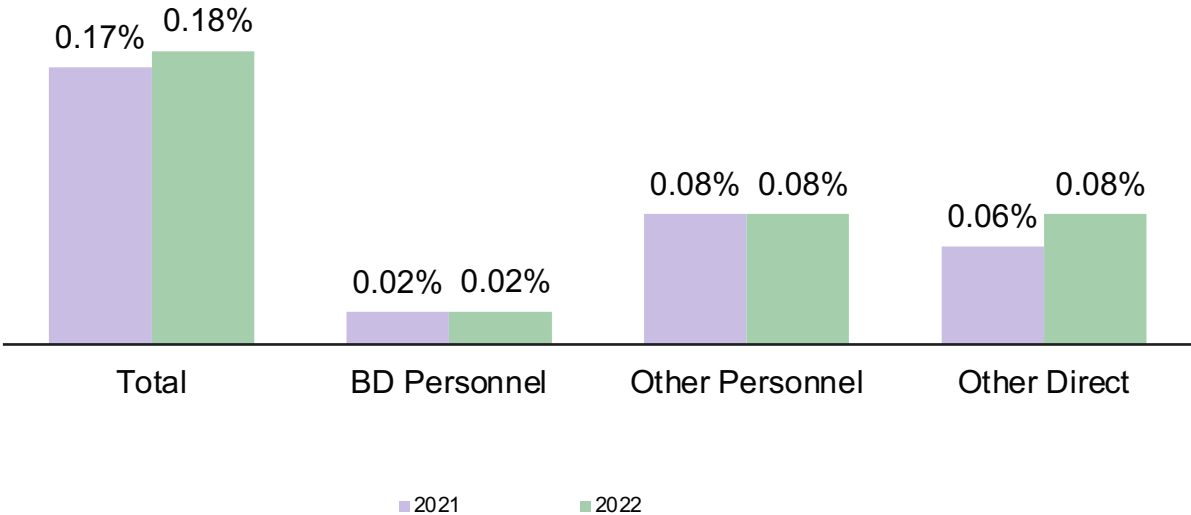
Factoring Revenue Mix



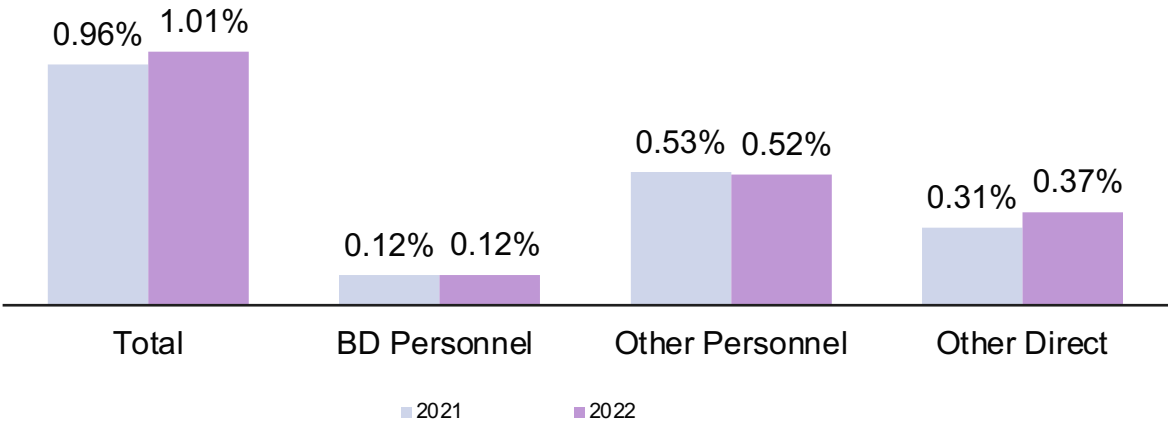
Interest revenue expanded its share of revenues in 2022, maintaining its position as the largest component of revenues. Service fees and other income both declined as a share of revenues.

Factoring Expenses

Direct Expenses as % of Volume

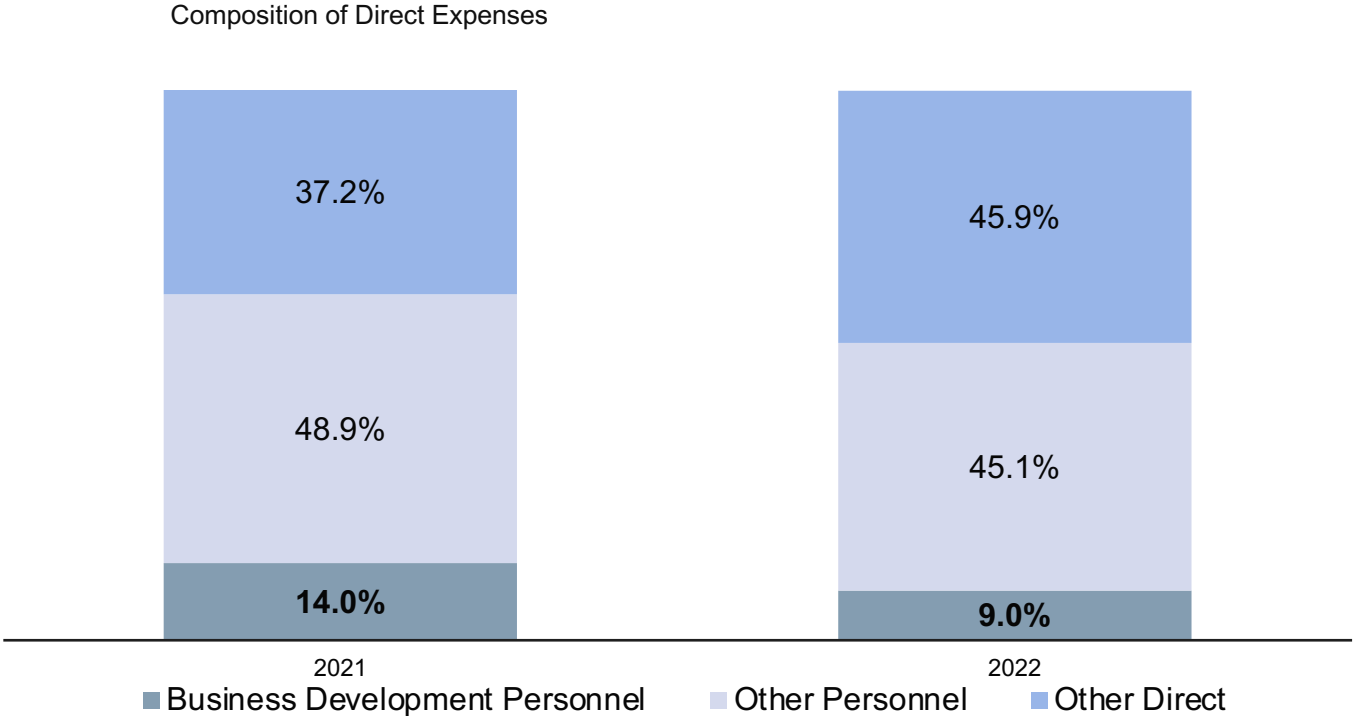


Direct Expenses as % of Average Earning Assets



Total direct expenses increased as both a share of volume and average earning assets from 2021 to 2022, driven largely by an increase in other direct expenses. Business development personnel and other personnel expenses as shares of volume and of average earning assets were mostly unchanged compared to their 2021 levels.

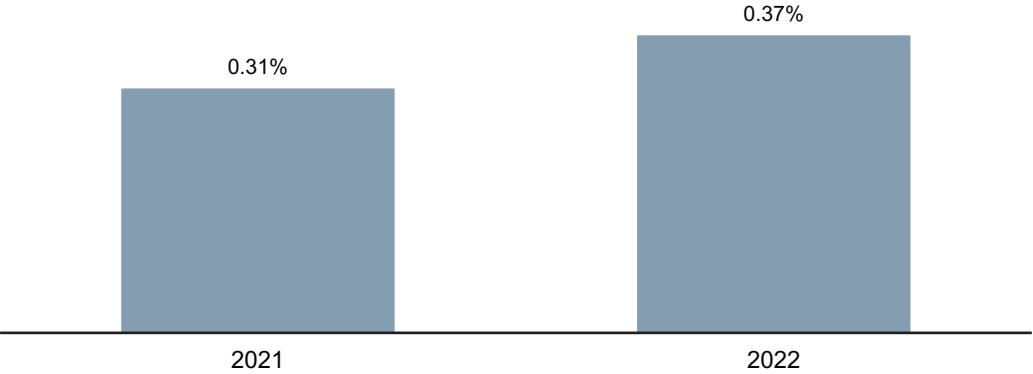
Factoring Expense Mix



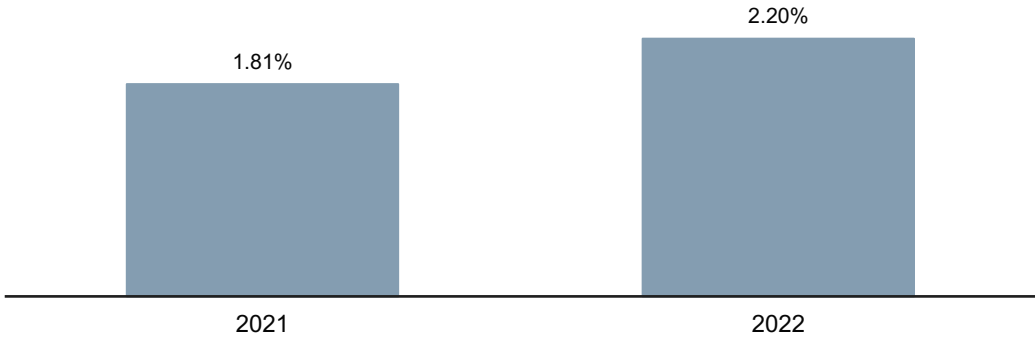
The composition of direct expenses shifted slightly, with other direct expenses increasing to comprise the greatest share of expenses in 2022. The shares of business development personnel and other personnel expenses declined by similar amounts in absolute terms, but business development declined the most as a proportion of its 2021 share.

Factoring Profitability

Pre-Tax Income as % of Volume



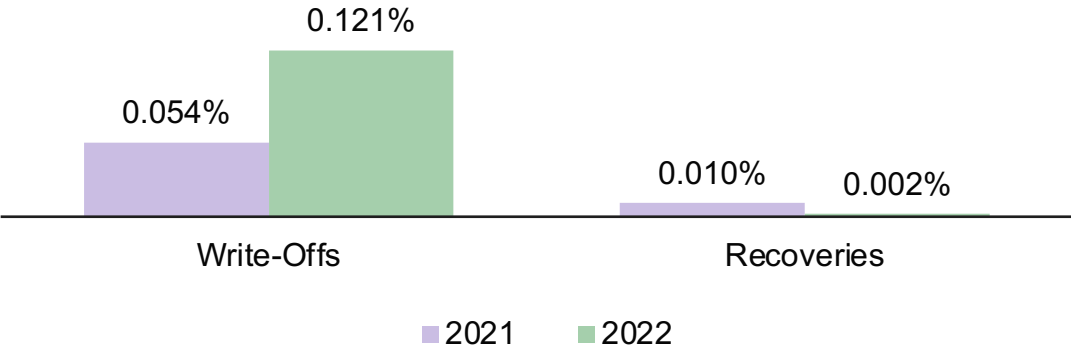
Pre-Tax Income as % of Average Earning Assets



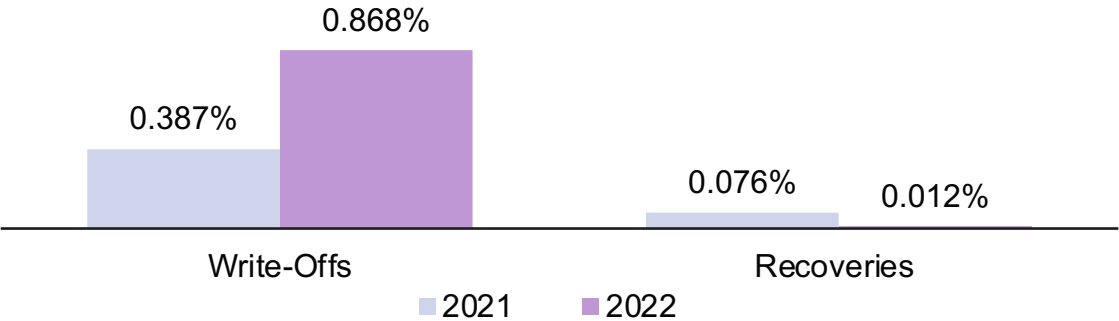
Pre-tax income increased both as percent of volume and of average earning assets from 2021 to 2022.

Factoring Write-Offs & Recoveries

Write-Offs and Recoveries as % of Volume



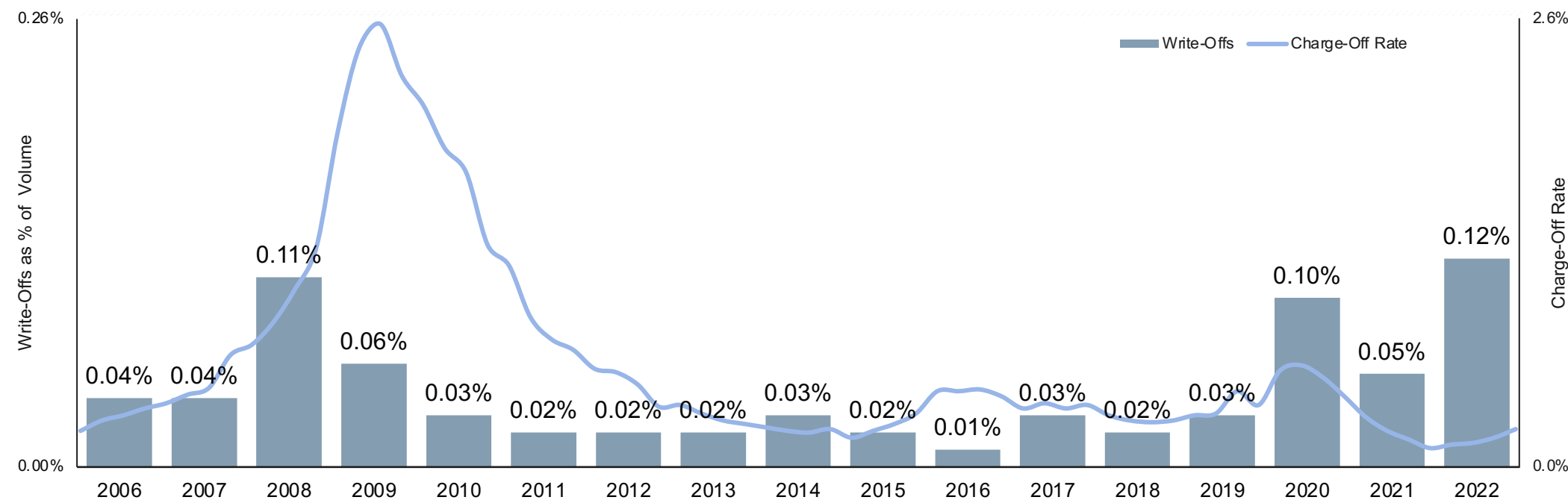
Write-Offs and Recoveries as % of Average Earning Assets



Write-offs rose sharply as both a percent of volume and of average earning assets whereas recoveries dropped substantially compared to 2021 levels.

Factoring Portfolio Write-Offs (2006-2022)

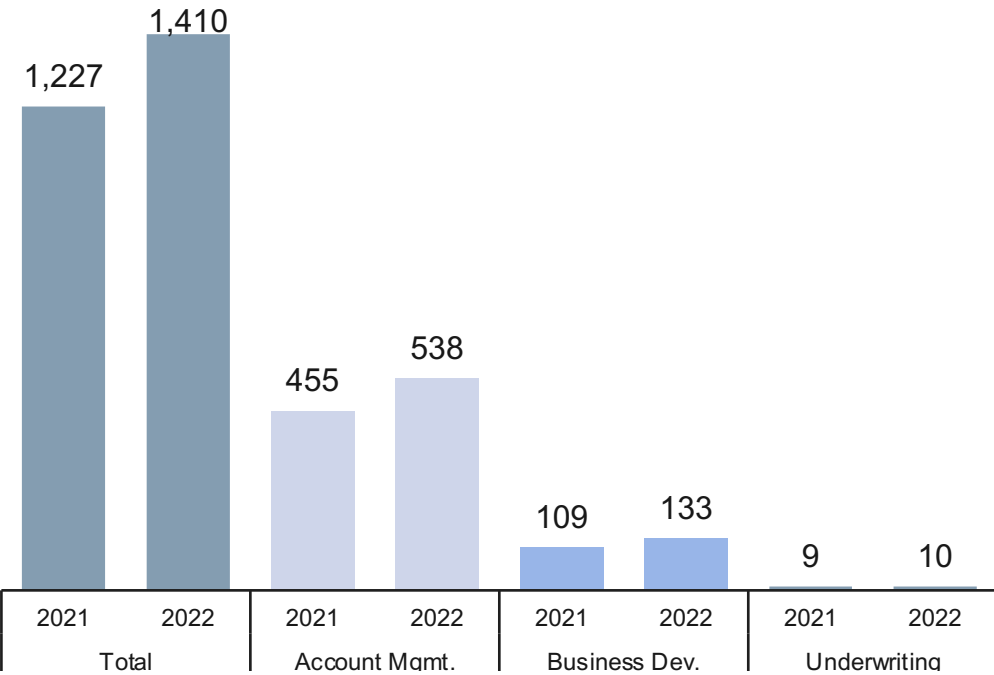
Write-Offs as % of Volume and Charge-Off Rate on Business Loans
Charge-off data from Federal Reserve Board of Governors



Write-offs as a percent of volume have loosely tracked with the charge-off rate on business loans, though the relationship has been weaker since 2020. In 2022, write-offs as a percent of volume reached its highest point since the series has been tracked while the charge-off rate inched up only slightly and remains at historically low levels.

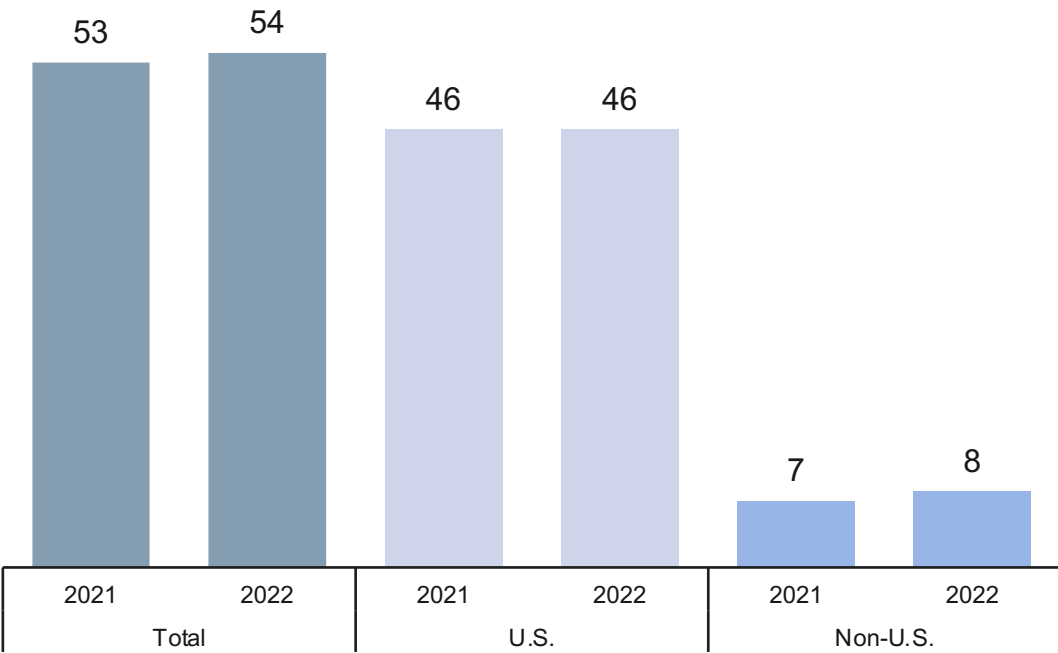
Factoring Employees and Offices

Number of Employees



The number of factoring employees increased by 14.9% from 2021 to 2022. The number of account management, business development, and underwriting employees increased by 18.2%, 22.0%, and 11.1%, respectively.

Number of Offices



The total number of offices increased slightly by 1 office, with non-U.S. offices accounting for the growth and the number of U.S. offices remaining unchanged.