# The Resurgence *of the* Entrepreneurial Independent

*By Susan Carol*

THE RECESSION YEARS HIT THE EQUIPMENT LEASING AND finance industry hard with a record number of mergers, acquisitions, and layoffs. In just one year—between 2000 and 2001—ELA lost 39 independent members. But 2001 may have marked the low point in the descent of the independent leasing company. Since then, new independents have emerged and several industry analysts have predicted a resurgence of the entrepreneurial independent company. Their optimism is based, in part, on the following signs of strength within the leasing industry:

- some independents have been able to achieve measurable growth during difficult times by carving new market niches for their companies;
- entrepreneurial industry veterans, some of whom were the victims of lay-offs at other leasing companies, have been forming new independents.
- today's market outlook is considerably brighter than in recent years.

## Continuing Successes

Some existing independents prospered even as the overall industry contracted and battled widespread pessimism. For one, IFC Credit Corporation, Morton Grove, Illinois, realized an annual compounded growth rate of 37 percent per year from 1999 to 2002. Compared to industry ROE averages during the same years, IFC Credit's growth is remarkable at 22.6 percent vs. 9.7 percent industry average.

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IFC Credit President and CEO Rudolph Trebels, who has witnessed a number of economic cycles during his 25 years in the equipment leasing industry, viewed the recent downturn as just another challenge. Since he founded IFC in 1988, the company has provided financing for more than $400 million in equipment, not including the financing volumes from two acquired companies.

"We've just been keeping our eye on the ball," says Trebels. "Sure, we are entering new areas of business where we see opportunities, but our focus is on the customer, on increasing efficiencies, and on maintaining our good reputation with funding institutions and investors."

Trebels acknowledges that it has been harder in the past few years to acquire capital, especially for companies that did not already have a proven track record with lenders. "We have a strong reputation with funding sources, good references from lenders and from investors as well," he says.

In fact, IFC Credit is currently in the process of raising capital and has bold acquisition plans to expand its vendor finance operation and enter new markets. Its acquisition of FirstCorp, Portland, Oregon, in February helped the company win new vendor clients and gain considerable efficiencies thanks to FirstCorp's frontend origination system. The acquisition added some 8,000 leases totaling $100 million in receivables to IFC's portfolios. FirstCorp's chairman, Len Ludwig, joined IFC's board of directors, and IFC assimilated FirstCorp's business platform for vendor leasing transactions.

"Now we are providing a custom website to our select vendors," says Trebels. "They can review reports and information 24/7 and provide lease applications and payment quotations to their end users. We are frequently turning lease applications around in less than an hour," he reports.

With its vendor finance business platform now in place, Trebels is optimistic about his company's continued growth. He also points to IFC's flexible vendor leasing programs such as private label, progress payments, co-operating marketing, and special payment promotions, including graduated or variable rate plans. A number of vendors have opted to join IFC's Business Partner Alliance program, which offers reduced lease rates, other financial incentives, and support.

There are more acquisitions in IFC's future as well, especially of small ticket vendor portfolios. The company already has purchased 16 of these portfolios over the years, ranging in size from $500,000 to more than $10 million. IFC is most attracted to portfolios orcompanies that have a piece of information technology that IFC may not yet have, or those that operate in specific niches attractive to IFC.

One new area of business that IFC's president finds attractive is the municipal leasing market. Government financing is currently experiencing a dwindling tax base and revenue stream, and the combined budget shortfall for all 50 states is estimated to be $50-$70 billion dollars in 2004. According to IFC's new government and education leasing division leader William Stuckert, the former head of Comdisco's federal leasing division, many tax-funded organizations currently experiencing a deficit will favor lease financing.

## Surviving Start-Ups

Allegiant Partners of San Rafael, California, is another independent taking advantage of current opportunities. It's a true success story, especially compared to the many start-ups that were folding just as Chris Enbom launched the company in 1998.

Allegiant Partners was born about the time that the flow of venture capital choked off and the dot.com bust sank into America's consciousness. Allegiant, which operated without bank financing until the year 2000, today reports annual revenues of nearly $3 million that are projected to grow to $4.5 million within a year.

Enbom, the company president, spoke on the subject of "starting a leasing company from scratch" at the ELA convention in October. He told his audience of 50 executives that Allegiant has been profitable every year, but he also warned about income "delusion" when volume increases quickly, leading to a ramp up in staff. Enbom also covered business planning, funding, and operating systems with a sizable audience on

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the last day, in the last session, of the annual convention.

He describes his own business model as an "earnings over time" model. The company books and holds most of its transactions—a strategy that today makes a lot of sense, but five years ago was considered unusual. "Everyone was looking for huge growth and then selling," Enbom says. Instead, Allegiant developed a 15-year plan that would be exercised over time, in the same way that this avid marathon runner paces his energy and resources out over time. Allegiant continues to follow the 30-page business plan created five years ago.

"We've built an old fashioned leasing company that is more like a bank. We do sell a few transactions a year, but 98 percent of our leases are booked and held," says Enbom. "We knew it would take a couple of years to get the track record to attract bank capital."

How does Enbom's company differentiate from larger independents and banks in his market? "We spend more time understanding a credit. We look at everything carefully. We did spend a lot of money on technology for rating agency data, but we also put a lot of human labor into the process and we are able to accept credit situations the banks will deny automatically," he explains.

Asked if this is a good time for independents to be forming, Enbom replies that a company's business model is more important than the timing. "If you are starting when there is less competition, you will simply have it later, but if you have the right model you can overcome that."

He and other executives of independent companies were encouraged this year by the news that Capital Source, Chevy Chase, Maryland, managed a successful initial public offering in August after only four years in business, and that New Jersey's Marlin Leasing Corporation filed with the SEC in September to reorganize as Marlin Business Services with up to $60 million worth of common stock. The company reported in the filing that it sees "significant opportunities for continuing its organic growth."

In contrast to these strategies, Great America Leasing Corporation has no plans to go public or sell the $530 million small-ticket leasing company. But CEO and Chairman Tony Golobic expects to double in 2003 the 12 percent growth rate Great America enjoyed in 2002.

How? "We think of our customers, who are providers of office, telecommunications, health care and retail distributor focused equipment, as our partners. We serve as their partner by delivering high-integrity, convenience-based financing solutions and selected complementary services that help them achieve greater success and keep their customers for life. We think there is a substantial portion of the markets we serve that will buy our value added products and will be willing to pay the price for it," says Golobic, who describes his company's competitors as very large corporations such as GE, CIT, and major banks. "We think of ourselves as the Ritz Carlton or Nordstrom of the small-ticket leasing, where our customers are willing to pay a little more for consistent quality and great value," he adds.

One small example of Great America's customized approach to service is its phone system. Callers don't hear a robotic, automated voice, but rather a live human voice, eager to help them, on the line. There is a maximum of two rings before someone answers the phone. There is no voice mail at this company Cedar Rapids, Iowa, company.

Golobic says he is approached all the time by Fortune 500 businesses wanting to buy Great America, but the company's vision was never to grow and sell. In fact, he says the reason so many companies go out of business prematurely is that they start with the mindset of selling, but they sometimes just can't sell in time. Companies that build for the long run develop a more permanent footing and sound processes, Golobic says.

Great America is definitely in it for

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the long haul. It has 230 employees and will add some 50 more this year. The company is heavily investing in training and continuous education of its employees.

"The future looks pretty good to us from where we're standing; in the middle of the corn fields of Iowa," Golobic says. "We live every day by our logo tag line: 'Hard Work, Integrity, Excellence.'"

## New Lifeblood

While ELA saw a slight decline in members overall from 2002 to 2003, the association also experienced an increase in new independent companies.

One of the newer independents is Pantheon Capital, Mahwah, New Jersey, created in mid-2003 by Bob Thoma, George Tsahalis, and Mike Crofton, each of whom wanted to return to entrepreneurship after several years at a large, bank-owned leasing company. All three began their careers in small, independent leasing companies active in healthcare finance.

Pantheon officials believe this is a good time for small independents because there are fewer of them to compete with overall due to industry consolidation. Crofton says they are bringing value to the market place with their detailed expertise in healthcare finance and their ability to provide speedy, personal service with integrity. For example, Pantheon Capital is able to approve even large middle-market transactions of several million dollars within just a few hours of proposal acceptance.

"We provide every client with full-service administration and we are intimately familiar with how hospitals like to manage their capital acquisition processes," adds Crofton. "In effect, we enable our hospital clients to use us as their outsourcing partner for a significant piece of their administrative burden, at zero cost to themselves."

With a team of only seven professionals, Pantheon keeps its focus on healthcare providers—hospitals and physicians—in the Northeast and Mid-Atlantic regions. The company finances a variety of medical equipment, as well as information technology systems, energy management systems, furniture, and fixtures. Although not limited by deal size, Pantheon's current focus is on middle-market transactions in the $500,000 to $5 million range.

Volume after its first three months of business was nearly $20 million. Pantheon expects volume to reach $100 million by the end of 2004. The company plans to add new members to the team as needed, but will also rely on technology and automation for increased productivity.

Crofton's advice to anyone forming a new company is to develop a thorough business plan that demonstrates to lenders the principals' experience, expertise, and personal financial commitment to the company's success. He believes that obtaining funding is not an issue when an independent is focused on quality.

"There is plenty of capital available. Lenders are aggressively seeking to put quality assets on their books. However, it is critical to show lenders that they are investing in a high quality organization," Crofton says.

Although larger organizations have access to lower cost capital, this can be neutralized when a business offers creativity, service, and speed. "We believe this is a distinct advantage for the small independent," Crofton adds. "When your entire team is focused on, and succeeds in, exceeding client expectations and underwriting sound, quality leases, your business will thrive and prosper."

Of course, working for a small company is in a sense its own reward. "No

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amount of big-company benefits can outweigh the fun and personal satisfaction that comes with building a well-run small business," Crofton believes.

## Growing in Strength

The stories of IFC Credit, Allegiant Partners, Great America, Pantheon Capital, and other successful independents support the equipment leasing industry's futurist views. When members of the ELA's Industry Future Council met in 2003, they predicted that independent firms will grow strong again. The key to making that happen would be "getting it all right," according to the report.

"Getting it right means having an experienced management team and staff that can efficiently take care of the customer's and vendor's needs, the platform to execute the program, and the capital and funding to grow the business," says Trebels of IFC Credit.

John Deane, founding principal of The Alta Group, an international consultancy exclusively serving this market, also predicted more than a year ago that there would be a rebirth of independents who would create something with which the industry giants often couldn't compete—personalized, value-added service.

In anticipation, The Alta Group began offering Funding Management Services to provide a bridge between lessors and funding sources, such as arranging for lessee funding; financing for lessor portfolio expansion; positioning to gain revolving lines of credit; and developing approaches for specialized or critical funding needs.

Two years ago, The Alta Group also formed a business alliance with FairView Advisors, which has offices in Florida, New Jersey and California. FairView provides investment banking advisory services to financial services and information technology clients who are seeking to raise capital in the private equity community or buy or sell a business.

Steve Sherman, a managing principal, says only a small percent of investors focus on financial services: more than 80 percent of private equity investment is in healthcare and technology. "If you are looking for an investor in financial services, you are looking for a discreet minority and within that, each has their own objectives and goals and idea of what represents a successful investment, size and geographic criteria." explains Sherman.

In a presentation at the ELA convention, FairView advisors gave these tips for increasing a leasing company's value to potential investors:

- create a "scarcity" value, or the strongest position in the niche
- maintain strong vendor relationships
- have conservative accounting and underwriting practices
- maintain assets that can be securitized
- generate consistent and strong profitability.

## Market Upswing

FairView also encouraged their standing-room-only audience with news that cash on hand has risen to record levels and that debt to equity ratios have returned to pre-boom levels. "Free cash flow is indeed headed toward a new record," Sherman said.

Indeed, independents and their consultants have been buoyed by positive signs of an improving economy that should benefit the entire industry. In October, CapitalSource released results of a capital spending survey that indicated 72 percent of middle market companies planned to increase spending in the coming year. The poll, conducted with Gallup, surveyed 500 top financial executives of companies with revenues between $25 million and $500 million.

Across the industry, lessors are starting to see business coming back. Many of the opportunities may be gobbled up by the big fish, but it seems there will always be a place for small, flexible and smart players—the entrpreneurial independents. ELT

Susan Carol is founder of Susan Carol Associates, specialists in equipment leasing communications for 15 years.