GREAT AMERICAN GROUP

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Monitor

Construction & Transportation

TRANSPORTATION STAYS EN ROUTE

CRANES AND LIFT EQUIPMENT

Demand for tower cranes remains high as non-residential construction continues to drive growth

TRUCKS AND TRAILERS

The average price of a used Class 8 tractor increased 14.7% in February 2019 versus February 2018

CONSTRUCTION AND MINING EQUIPMENT

The secondary marketplace for construction equipment remained stable in the first quarter of 2019

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Overview

The first quarter of 2019 displayed trends that indicate another positive year for the transportation industry. The transportation markets continue to show high demand, while the construction markets are anticipated to experience increased activity throughout the year. With oil prices rising faster than analysts had initially anticipated, activity within the oilfield sector, as well as with related support equipment, remains strong. In addition, consumer confidence continues to remain strong nationally, which has fed into the continued growth of freight transportation figures.

The market for cranes and other lift equipment remained stable through the first quarter of 2019, as demand for commercial and residential construction continues to remain high. Global construction equipment sales are forecasted to decrease by 1.0%, following a record-breaking high of 1.1 million units sold in 2018.

Retail truck sales in North America soared in the first quarter of 2019, as year-to-date sales have increased by 24.5% compared to the same period in 2018. While sales of used class 8 trucks have declined to start the year, analysts indicate that much of the decline is due to low inventory counts and continued high demand.

Activity in the secondary marketplace has held firm in 2019, with sale prices of rolling stock seeing almost 15% increases in some categories and pricing for construction equipment remaining relatively stable. While new construction starts have been trending downwards on a month-to-month basis, according to Dodge Data & Analytics, Inc., this trend has likely been partially affected by winter weather conditions, with growth anticipated throughout 2019. Mining equipment continues to be a slow-moving market, with relatively flat sales and sale prices in recent months.

The intermodal market was able to differentiate itself from the trucking sector in 2018 by offering U.S. shippers capacity that the trucking market was unable to fulfill. However, at only a 5% discount, intermodal is currently offering shippers a much lower discount than a year ago. Industry analysts indicate that railroads will need to offer more competitive rates and better service in order to keep customers aboard in 2019, which will ultimately represent a more competitive year in terms of truck versus rail.

Overall, despite record annual volume, intermodal growth rates slowed from 5.3% to 4.8% in 2018, according to the Association of American Railroads (“AAR”). This slower pace carried into 2019, as North American intermodal volume declined 1.3% for the first quarter of 2019 versus the first quarter of 2018.

Cranes & Lift Equipment

The secondary marketplace for cranes and lift equipment has remained positive through the first quarter of 2019 following a strong 2018. Although construction spending experienced a minor decline in the first quarter, an overall increase of 3% is anticipated in the industry for the year. According to the U.S. Census Bureau, total construction spending decreased 0.9% in March 2019 versus February 2019, representing a decline of 0.2% compared to the same period in 2018.

Demand remains very high for tower cranes, as non-residential construction continues to be a significant driver of growth for this sector. Utilization rates, as reported by crane rental companies, remained high through the first quarter, with tower crane and all-terrain crane demand being particularly high. Although mining commodity pricing decreased slightly in the first quarter of 2019, the steel and aluminum tariffs imposed in 2018 have driven up the cost of materials and new equipment. This, coupled with extended lead times associated with increased demand, has helped to bolster the secondary marketplace for cranes and lift equipment. Although lead times have been higher over the past year, manufacturers are beginning to update current models with slight advancements in set up, transport, and safety measures.

Auction activity for cranes has remained stable in the first quarter of 2019 versus the same time frame in 2018, while new crane sales have risen and used cranes have continued to supply the secondary marketplace. Rental crane companies are continuing to invest in new equipment, as well as refresh their fleets with late-model equipment in order to keep up with industry demand. As such, older-model equipment will continue to hit the secondary marketplace as these companies cycle out parts of their older fleets.

High demand over the last year has offset the loss of value associated with physical depreciation, leading to some gains for relatively newer-model cranes. Due to the influx of assets in the secondary marketplace, older vintage assets have not been faring as well, as more relatively newer equipment has become available. In the secondary marketplace, most categories of cranes tend to hold value due to the long lead times and high cost of new ownership versus typical construction equipment that is more generic in nature. Cranes in good condition, with relatively low hours, and of newer vintage, are the most sought after by potential buyers.

Due to these multiple factors continuing to support the crane and lift industry, there has been an uptick in merger and acquisition activity, as larger firms have been buying out smaller competitors in order to increase their footprint and market share. Steady demand for construction projects is anticipated for the next 18 to 24 months, with rental rates for lift equipment beginning to increase as a result.

Trucks & Trailers

Monthly Class 8 truck orders have been on the decline to start 2019; however, the trend is mostly attributed to the industry's banner year in 2018. Many customers who submitted orders then did so with the knowledge that orders would not be fulfilled until mid-2019. Accordingly, many manufacturers are reporting sizable backlogs in production. While these backlogs are expected to fall, they are anticipated to remain over 70% higher than a year ago. Regardless, analysts are forecasting a strong year overall, with 350,000 Class 8 truck factory shipments, an 8% increase year-over-year, as well as the production of 310,000 trailer units.

In March 2019, retail sales of Class 8 tractors reached over 22,000 for the first time this year. Total sales of 22,834 units was 17.8% higher than the same period last year when sales totaled 19,834 units. Class 8 sales have increased 24.5% from 2018 on a year-to-date basis. This growth has been spurred by increased truck tonnage throughout the year.

As reported by the American Trucking Associations, although the seasonally adjusted For-Hire Truck Tonnage Index decreased 2.3% in March 2019 from February, truck tonnage for the year has improved 1.6% compared to the same period in 2018, with a year-to-date growth of 3.8%. According to ACT Research, sales of used Class 8 trucks have dropped since the same time period last year as a result of low inventory and high demand. Around 70% of Freightliner dealers are reporting insufficient used-truck inventory. As of February, a year-to-date total of 41,000 units have been sold versus 45,900 units sold in 2018. Demand for these units has pushed the average price of a used Class 8 tractor to $48,173 per unit in February 2019, a growth of 14.7% since February 2018, when the price per unit averaged approximately $41,995. Additionally, sleeper cab units were selling at an average price increase of 14.9% in February 2019 compared with the same time period in 2018.

One continued concern for the trucking industry is the shortage of drivers that are currently available, as they have begun to age out of the existing pool of drivers. This will most likely lead to increased employee costs in the future, which could have an effect on customer pricing down the line.

Construction & Mining Equipment

Non-residential construction spending in the U.S. decreased 0.4% in March 2019 versus the prior month, but increased 8.3% over the same time frame in 2018. While non-residential spending in the private sector grew 0.5% in March, public non-residential spending, including but not limited to highway and street as well as educational construction, fell 1.3%. Despite a slight drop to start off the year, total engineering and construction spending for the U.S. is forecast to increase 3% in 2019, down slightly from an increase of 4% in 2018.

Construction equipment manufacturers and rental construction equipment companies experienced increases in revenue for 2018. Construction equipment manufacturers Terex Corporation and JLG, a division of Oshkosh Industries, posted revenue increases of 16% and 5%, respectively, over the same period in 2017. Additionally, Caterpillar, a leading OEM in the industry, realized a revenue increase of 11% in 2018 versus the previous year. While it is anticipated that the domestic construction market will continue to experience increases in growth through the second quarter of 2019, experts are anticipating a possible slowing towards the end of 2019.

The secondary marketplace for construction equipment remained stable throughout the fourth quarter of 2018 and into the first quarter of 2019, as demand for construction equipment continues to be strong. Material costs associated with new equipment, coupled with the industry's continued growth, have contributed to increased pricing of used equipment. Equipment related to infrastructure and non-residential construction, such as excavators, wheel loaders, bulldozers, motor graders, and other similar equipment, are expected to remain in demand for the foreseeable future as prices in the secondary marketplace have remained strong.

Mining commodity pricing has seen a general decrease in the first couple months of 2019; however, the overall decline is mostly attributed to market adjustments following tariff changes and trade barriers, as opposed to a decline in demand. The industry experienced growth in 2018, and analysts are forecasting roughly 4% growth in the industry through 2020 due to a number of large projects and expansions coming online before 2020, as well as a growth in exploration activity.

However, there may be a limit to the availability of capital for expansion, especially domestically. While the current presidential administration has a more favorable attitude toward mining, there are still some issues with the cost of production, increasing costs of equipment, and other factors in the U.S. While there is optimism moving forward, there is some cause for concern regarding the domestic industry. Equipment in this sector will rise and fall in line with demand for global mined goods, and should be monitored in the coming years.

Additionally, the coal industry continues to be hit hard by bankruptcies as cheaper resources phase out the once-thriving resource, according to industry analysts. Cloud Peak Energy ("Cloud Peak"), the third-largest coal company in the country, filed for Chapter 11 bankruptcy on May 10, 2019. Cloud Peak's filing follows the bankruptcies of Alpha Natural Resources, Peabody Energy, and Arch Coal, all within the last four years. These bankruptcies can potentially weaken demand for used above-ground mining equipment, as the market supply and demand equilibrium is interrupted.

Intermodal & Freight Rail

For the week ended March 9, 2019, U.S. weekly rail traffic totaled 238,104 carloads, down 7% compared with the same week in 2018, while U.S. weekly intermodal volume totaled 270,854 containers and trailers, down 2.6% compared to 2018, according to the AAR.

One out of the 10 carload commodity groups, petroleum and petroleum products, posted an increase compared with the same week in 2018, up 1,179 carloads to 10,658 carloads. Commodity groups that posted declines compared with the same week in 2018 included coal, down 7,238 carloads to 76,562; grain, down 3,716 carloads to 19,219; and nonmetallic minerals, down 3,116 carloads to 30,217.

For the first 10 weeks of 2019, U.S. railroads reported cumulative volume of 2,476,569 carloads, down 1% from the same period in 2018; and 2,681,521 intermodal units, down 0.4% from last year. Total combined U.S. traffic for the first 10 weeks of 2019 was 5,158,090 carloads and intermodal units, a decrease of 0.7% compared to last year.

Canadian railroads reported 75,534 carloads for the week, down 5.3%, and 67,818 intermodal units, a decrease of 2.1% compared with the same period in 2018. For the first 10 weeks of 2019, Canadian railroads reported cumulative rail traffic volume of 1,428,764 carloads, containers, and trailers, up 1.3%.

Inclement weather, combined with a pullback in shipments following heavy front-loading at the end of 2018, contributed to volume declining below industry expectations in the first quarter of the year. Snow, cold temperatures, and the flooding in the Midwest and Central Plains contributed to lower volume in the quarter.

Tracks buried under water are unusable, and unlike trucks, trains cannot easily detour from their given route. Even after flood waters recede, trains cannot immediately return to maximum speed, as railroads have to first inspect and replace damaged ballasts, crossties, and tracks.

Industry analysts indicate that if the lower volumes for the first quarter truly stemmed from bad weather, volumes should improve in the coming months. However, if trade wars flare, the economy falters, spot truck rates stay low, or precision scheduled railroading is pushed too hard, the state of the intermodal and freight industry might fare worse than initially anticipated.

Industrial Marine

While the basics of the container shipping market are improving, industry analysts indicate that 2019 holds major challenges for ocean carriers, including the most expensive environmental mandate to date, as well as heightened geopolitical tensions. The implementation of the International Marine Organization's ("IMO's") low-sulfur mandate for ocean vessels, which is slated to take effect in 2020, is dependent on various factors, including whether enough low-sulfur fuel will be available, how the rules will be enforced, and whether shippers will feel an impact beyond higher prices.

Ocean carriers will need to adopt various methods to meet the mandate and reduce vessel sulfur emissions, including the use of low-sulfur fuel, scrubbers to reduce the emissions from regular fuel, and ships powered by natural gas. The IMO mandate calls for a reduction in sulfur emissions to 0.5% from 3.5%, beginning January 1, 2020. The vast majority of ships are expected to meet the requirement by replacing traditional bunker fuel with low-sulfur fuel. Various industry estimates put the additional annual cost range of meeting the rule between $13 billion and $16 billion.

The industrial marine industry is facing decreased demand in 2019, as volumes that were expected before the imposition of the China tariffs are lowered. In addition, the U.S. economy will also slow down, as the effects of the tax cuts and spending increases that were put into place in 2018 diminish.

According to maritime research firm Alphaliner, the idle containership fell slightly to 561,187 twenty-foot equivalent units ("TEUs") as of January 7, 2019, with healthy capacity utilization rates on the Asia-Europe and Transpacific routes over the year-end, keeping idle capacity in line. The number of idle ships of over 12,500 TEUs declined to only eight units compared to 13 units in December, primarily due to the return of several vessels to active duty on the Asia-Europe route.

Demand for class Panamax containerships, which picked up in recent weeks, has driven a major decline in the number of idle units in the size range of 4,000 TEUs to 5,100 TEUs as of April 2019. Over the past month, the count decreased from 50 ships to just 22 ships, with the sharp drop mainly driven by increased demand from the Intra-Far East routes, which have become the largest single trade for Panamax ships.

Monitor Information

GA's *Construction & Transportation Monitor* relates information covering most transportation sectors, including industry trends and their relation to our valuation process. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole. GA welcomes the opportunity to make our expertise available to you in every possible way. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.

Experience

GA has worked with and appraised a number of companies within the construction and transportation industry, including industry leaders in heavy mobile equipment, freight rail, marine, and aerospace. GA's extensive record of transportation inventory and machinery and equipment valuations also features appraisals for companies throughout the entire supply chain, including manufacturers and distributors, maintenance and repair companies, and freight rail refurbishing companies.

GA's extensive experience includes valuations of major businesses in the construction and transportation industry such as:

- One of the largest providers of crane rental services in all sizes and varieties in North America.
- Long-standing providers of truckload shipping services for chemicals, petroleum, and energy sector products.
- A heavy civil construction company specializing in building and reconstruction of transportation/water infrastructure projects.
- A leading miner and explorer of coal properties.
- Providers of locomotives supplying more than 50 railroads including Class I and commuter rail systems.
- Manufacturers and distributors of inland and ocean-service vessels and equipment, as well as OEM and aftermarket marine components and accessories, for the industrial marine and recreational boating industry.
- Manufacturers and distributors of OEM components and parts for aircraft, helicopters, ships, submarines, ground systems, avionics, and other commercial airline and defense applications.

Moreover, GA has liquidated and been involved in the asset disposition of many companies such as Flyi-Independent Air, Cessna, Airbus, Hawker Beechcraft, Daimler Chrysler, Vector Bus, ABC Bus, Green Lawn Tour & Coach, March IV Industries, Affholder Construction, American Sand & Gravel, Big Eagle Services, Canron Construction, Chesapeake Construction, City of Cedar Hills, Cook Harriet Construction, DE Rice Equipment Construction, Flint Energy, Ibarra Concrete, James River Coal, Joe Bland Construction, Marine Pipeline, Marine World, Mohawk Concrete, Pease Construction, Pickus Construction, PT Borneo Mining Services, R.E. Holland/American Excavating, Rinker Material Group/Twin Mountain Rock, Roads Construction, SelectBuild, Stigler Construction, Super Transport, Tamrock Drill Rigs, U-Brothers, Victory Industrial, and Unified Logistics, and WDC Exploration.

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