GREAT AMERICAN GROUP

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Monitor

Construction & Transportation

TRANSPORTATION MAINTAINS SPEED

STABLE MARKET FOR EQUIPMENT

Global construction equipment sales are forecasted to total approximately one million machines in 2019

TOWER CRANES STILL IN HIGH DEMAND

Utilization rates remain high, with tower crane, all-terrain crane, and crawler crane demand being particularly high

TRUCK TONNAGE IMPROVES

The For-Hire Truck Tonnage Index for August 2019 has improved 4.1% compared to the same period in 2018

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Overview

Although transportation markets display signs of stabilizing, the construction markets are anticipated to finish out the year on a positive note.

Increased oil production in the U.S. continues despite a drop in rig counts. Activity in the oilfield sector, as well as demand for related support equipment, therefore remains stable. The recent escalation in trade and tariff tensions has caused some uncertainty, however; consumer confidence remains relatively positive nationally, which has fed into the year-over-year growth of freight transportation figures.

The market for cranes and other lift equipment remained stable through the third quarter of 2019, as demand for commercial and residential construction continues to remain high. Global construction equipment sales are forecasted to total approximately one million machines in 2019.

Retail truck sales in North America have slowed through the third quarter of 2019, as year-to-date sales have displayed a decrease of 1.9% as compared to the same period in 2018. Additionally, sales of used class 8 trucks have declined, as much of the demand for new equipment had been satisfied throughout 2018 and early 2019, and the secondary marketplace has become somewhat saturated with used equipment.

While new construction starts dropped 6% in August, according to Dodge Data & Analytics, Inc., this trend breaks a three-month trend of month-over-month gains. Mining equipment continues to be a slow-moving market, with relatively flat sales and sale prices in recent months.

Cranes & Lift Equipment

The secondary marketplace for cranes and lift equipment has remained stable through the third quarter of 2019, with minor increases and decreases associated with typical industry fluctuations and equipment depreciation. According to the U.S. Census Bureau, total construction spending increased by 0.1% in August as compared to July; however, the total estimate of $1.287 billion was 1.9% below the August 2018 estimate of $1.312 billion.

Tower cranes remain in high demand, as non-residential construction continues to be a significant driver of this growth. Utilization rates, as reported by crane rental companies, remained high through the second quarter, with tower crane, all-terrain crane, and crawler crane demand being particularly high. Following a slight decrease in mining commodity pricing in the first quarter of 2019, some pricing has seen recent increases. In addition, the steel and aluminum tariffs imposed in 2018, and most recently in September 2019, have driven up the cost of materials as well as new equipment.

These factors, coupled with extended lead times associated with steady demand, have helped to bolster the secondary marketplace for cranes and lift equipment. Although the lead times have been higher over the last year, manufacturers are beginning to update current models with slight advancements in set-up, transport, and safety.

Auction activity for cranes has remained steady through the third quarter of 2019 in comparison to the same timeframe in 2018, while new crane sales continue to rise and used cranes continue to supply the secondary marketplace. Websites such as The Crane Network have consistently reported over 6,000 cranes for sale throughout 2019.

According to IBISWorld, Inc., the heavy equipment rental industry is expected to grow 1.4% annually for the next five years versus 1.3% over the past five years. Consequently, rental crane companies are continuing to invest in new equipment, while refreshing their fleets with late-model equipment in order to keep up with industry demand.

As these companies cycle out portions of their fleets, older-model equipment will continue to hit the secondary marketplace. Since demand has remained high over the last year, this has offset the loss of value associated with physical depreciation, leading to some gains for relatively newer-model cranes. Older-vintage assets are displaying decreases in value as more relatively newer equipment continues to become available in the secondary marketplace. Most categories of cranes tend to hold value, however, 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.

Trucks & Trailers

As was the case in the first quarter of 2019, truck and trailer sales have continued to decline through the second and third quarters. In the early months of 2019, manufacturers were reporting sizable backlogs in the production of Class 8 tractors. Since this time period, these backlogs are decreasing by about 15,000 to 20,000 units per month, according to ACT Research. The same can be said for trailers, as orders totaled around 10,600 in August 2019, as compared to 38,275 in August 2018. Consequently, order boards are now becoming open for 2020 for trailer manufacturers.

In August 2019, retail sales of class 8 tractors were around 23,466 units, the first year-over-year decline in over two years. Total sales were 1.9% lower than the same period last year, when sales totaled 23,913 units, according to WardsAuto. This decline is believed to be partially attributed to a normalizing of the industry, where the need for new equipment has been met over the last year to 18 months. As reported by the American Trucking Associations, although the seasonally adjusted For-Hire Truck Tonnage Index decreased 3.2% in August 2019 as compared to July, truck tonnage for the year has improved 4.1% compared to the same period in 2018, with year-to-date growth of 4.3% versus 2018.

According to ACT Research, sales of used class 8 trucks have dropped since the same time period last year. As of August, a year-to-date total of 167,000 units had been sold in comparison to the 188,100 units sold in 2018.

August sales alone fell nearly 14.6% to 21,500 units in contrast to the 25,200 units sold a year earlier. Trucks priced below $50,000 have shown a decrease in sales of 30%, the first decline at this scale since early 2018. The average price of a used class 8 tractor in August dipped to $45,173, a decline of 1.5% since August 2018, when the price averaged $45,842. Additionally, auction prices have dropped around 20% to 25% year-over-year. Following a strong year of new truck sales, the increased supply of used equipment in the secondary marketplace has been a factor is the overall downward pricing trend.

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

Construction & Mining Equipment

As of August 2019, non-residential construction spending in the U.S. realized a decrease of 0.4% in comparison to July 2019, but a 0.3% increase over the same month in 2018. While non-residential spending in the private sector dipped 1% in August, public non-residential spending, including but not limited to highway/street and educational facility construction, grew 0.4%. Despite any declines throughout 2019, total engineering and construction spending for the U.S. is forecast to grow 2.4% in 2020.

Consequently, construction equipment manufacturers and rental construction equipment companies experienced increases in revenue. Construction equipment manufacturer Terex Corporation posted a revenue increase of 8% in the second quarter of 2019, while JLG, a division of Oshkosh Industries, posted a revenue increase of 13% over the same period in 2018. Additionally, Caterpillar, a leading OEM in the industry, realized a revenue increase of 3% in the second quarter.

The secondary marketplace for construction equipment remained stable throughout the first nine months of 2019, as demand for construction equipment remained strong. Material costs associated with new equipment, coupled with the industry's continued growth, have assisted in driving up the 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 stay in demand for the foreseeable future as prices in the secondary marketplace have remained strong.

Tariff fluctuations in 2018, along with newly imposed steel and aluminum tariffs, will continue to drive up pricing for new equipment. This pricing increase will continue leading more prospective buyers to the secondary marketplace. Overall, analysts are forecasting roughly 4% growth in the industry through 2020 due to a number of large projects and expansions coming online before 2020 and a growth in exploration.

However, there may be a limit to the availability of capital for expansion, especially domestically. While the current 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. Despite optimism moving forward, there is some cause for concern regarding the domestic industry. Equipment demand in this sector will rise and fall in line with demand for global mined goods, and should be monitored in the coming years.

Intermodal & Freight Rail

For the week ended August 24, 2019, U.S. weekly rail traffic totaled 532,483 carloads, down 5.9% compared with the same week in 2018, while U.S. weekly intermodal volume totaled 271,452 containers and trailers, down 6.5% compared to 2018, according to the Association of American Railroads. Three of the 10 carload commodity groups, miscellaneous carloads, petroleum and petroleum products, and motor vehicles and parts, posted increases compared with the same week in 2018, up 961, 888, and 609 carloads, respectively, to 10,973, 12,212, and 17,422 carloads, respectively. Commodity groups that posted declines compared with the same week in 2018 included coal, down 10,166 carloads, to 81,166; metallic ores and metals, down 4,003 carloads to 21,435; and forest products, down 1,093 carloads to 9,743.

For the first 34 weeks of 2019, U.S. railroads reported cumulative volume of 8,603,107 carloads, down 3.4% from the same period in 2018, and 9,055,095 intermodal units, down 3.8% from last year. Total combined U.S. traffic for the first 34 weeks of 2019 was 17,658,202 carloads and intermodal units, a decrease of 3.6% compared to last year.

Canadian railroads reported 83,339 carloads for the week, down 2.1%, and 73,322 intermodal units, up 0.9% compared with the same period in 2018. For the first 34 weeks of 2019, Canadian railroads reported cumulative rail traffic volume of 5,150,995 carloads, containers, and trailers, up 1.9%.

In the third quarter, manufacturing and goods trading, the portion of the economy which generates freight, weakened significantly. Year-over-year intermodal volumes, which are typically a reliable indicator of immediate manufacturing demand and consumer spending, have fallen over seven consecutive months through August. Additionally, cooler weather has added to the lower volume.

Railroads face multi-pronged challenges in 2019, including fundamental long-term structural changes, such as the continued decline of coal markets, growth in the domestic intermodal and chemical sectors, as well as disruptions and uncertainty in manufacturing, agricultural, and international trade.

Industrial Marine

Both China and the U.S. reported cargo increases in the first quarter of 2019 despite ongoing trade tensions. However, the escalation of the trade war between China and the U.S. is expected to bring down container volume growth rates in both countries over the coming quarters.

New extra-loaders on the trans-Pacific will test the potential for a rebound for eastbound spot rates. In past years, carriers and alliances would often deploy peak-season-only services and extra-loaders on the Asia-U.S. trades without fear of spawning over-capacity and falling spot rates. However, the U.S.-China trade war is taking a toll on spot rates. U.S. containerized imports from Asia in the first half of 2019 were up 1.4%, but imports from China were down 5% compared with the first six months of 2018, according to PIERS. Spot rates in the eastbound Pacific were down 29% from last year, according to the Shanghai Containerized Freight Index.

Carriers continue to send mixed signals as they respond to the uncertainties over four rounds of tariffs on imports from China by the Trump administration this past year. Carriers in the second quarter announced 31 canceled sailings. That compares with 18 in the second quarter of 2018, according to Sea-Intelligence Maritime Consulting. Simultaneously, Maersk Line, Mediterranean Shipping Co., and Cosco announced they would deploy six extra-loader vessels to the West, East, and Gulf coasts in July and August. Since the extra-loaders operate in two directions, they are increasing capacity in both the eastbound and westbound trans-Pacific at a time when spot rates in both trades are softening. Cancellations announced so far were significantly more severe than those in 2017.

Maritime research firm Alphaliner reduced its global container throughput growth estimate from 3.6% to 2.5% for 2019 due to weakening volumes in the first quarter of 2019. The full-year projections were also affected by the expected decline in trans-Pacific volumes as the result of the U.S.-China trade dispute. According to a sample of more than 250 ports, compiled by Alphaliner, first-quarter volume growth only reached 2.8% globally. It has slowed down from 6.6% in the same quarter of last year and from 4.7% in the fourth quarter of 2018.

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.

The information contained herein is based on a composite of GA's industry expertise, contact with industry personnel, liquidation and appraisal experience, and data compiled from a variety of respected sources believed to be reliable. GA does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this issue. Neither GA nor any of its representatives shall be liable for use of any of the information in this issue or any errors therein or omissions therefrom.

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 WDC Exploration.

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About Great American Group

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