GREAT AMERICAN GROUP

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Monitor

Construction & Transportation

OPTIMISM GROWS FOR 2017 AND BEYOND

CRANES AND LIFT EQUIPMENT

Demand for tower cranes remains high due to improved new commercial construction starts.

TRUCKS AND TRAILERS

Sales of Class 8 tractors remain low, but optimism looms for 2017 and beyond.

CONSTRUCTION AND MINING EQUIPMENT

Improved construction starts bolster 2017 forecasts, while weak commodity prices continue to impact the market.

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Overview

While transportation markets have been exhibiting modest growth through the first quarter of 2017, depressed commodity pricing, stagnant consumer confidence, and reduced freight delivery continue to impact its various sectors. Overall, industry forecasts suggest that increased consumer confidence and spending will help bolster the manufacturing and sales of consumer products and the subsequent short and long-haul transportation of these goods.

The markets for cranes and other lift equipment experienced little growth through early 2017, as a stagnant oil and gas sector has been offset by increased demand for commercial and residential construction. However, growth is anticipated in these sectors in the coming year, which is expected to help increase demand for construction equipment and services.

The North American truck and trailer market is poised for a strong uptick in 2017 after a weak 2016. While sales for new Class 8 tractors, as well as trailers across all categories, continue to experience year-over-year declines, there has been an increase in demand for used equipment. Values of assets in both the private sale and auction markets have also seen some declines, but are expected to improve in the coming months as a result of increased demand.

Activity in the secondary marketplace has seen a growth in demand as a result of an increase in sales volume and pricing. Year-over-year new construction starts have increased and are expected to continue on this growth path for the foreseeable future as the economy continues to improve. Mining equipment continues to be a slow-moving market, with the future performance of this market linked to increases in commodity pricing.

The North American intermodal market has been performing strongly thus far in 2017, with U.S. weekly intermodal volumes increasing 4.6% in April 2017 versus April 2016.

According to industry analysts, Class I railroads expect a high degree of uncertainty heading into 2017 after dealing with a lot of volatility throughout 2016. The macro-economic environment is facing several significant challenges, including un unstable global economy, a relatively strong U.S. dollar, and continued demand for consumer goods, especially those shipped via intermodal containers.

Total combined U.S. rail traffic for the first 14 weeks of 2017 was 7,224,804 carloads and intermodal units, an increase of 3.8% compared to last year. Freight traffic had declined throughout 2016 due to the ongoing collapse of coal shipments. However, volumes have been recently bolstered by President Trump's promise to revive the coal industry. In his first steps to do so, the President issued an executive order to roll back the Clean Power Plan, which, if carried out, can produce opportunities for the coal industry. Industry analysts suggest that any positive coal-related developments generally results in a favorable outcome for railroads, as coal is a key revenue-generating commodity for railroad companies.

Cranes & Lift Equipment

The secondary marketplace for cranes and lift equipment has remained stable in the beginning of 2017, with growth forecasted moving forward as a direct result of improvements in the construction industry, as well as increased spending in the commercial and infrastructure markets. The construction industry is projected to grow at an annualized rate of 3.8% to $2.5 billion in 2021, which is expected to help bolster demand for both new and used crane and lift equipment in the subsequent years.

As demand for cranes has been stable in recent months, original equipment manufacturers ("OEMs") are expected to report soft earnings for the first quarter of 2017 at the beginning of May. The effects of the downturn in the oil and gas sector are still being felt by crane manufacturers; however, industry analysts indicate that demand for crane equipment is expected to improve due to increased spending in the commercial construction and infrastructure markets. Manitowoc has recently scaled back production on smaller capacity equipment due to sales declines, as evidenced by its recent facility closure in Manitowoc, Wisconsin; however, improved forecasts has put the company in a position to ramp up production to meet improved demand in the future. These capabilities were moved to Grove City, Pennsylvania in order to increase manufacturing efficiencies, which should allow the company to ramp up production on an as-needed basis.

Additionally, the tower crane market has experienced continued growth due to strong performance in the commercial construction sector in recent months. Accordingly, daily rental rates for tower cranes have nearly doubled in the last 12 months. The rough terrain crane represents the most common crane in the secondary marketplace due to its relatively high lifting capacity and maneuvering capabilities. Rough terrain cranes continue to be a staple of the truck-mounted crane industry and demand for these cranes continues to be strong.

However, inventory for this asset type remains high, which impacts its values in both the free market exchanges, as well as in auctions. Conversely, demand for higher tonnage capacity cranes, which are typically associated with crawler cranes and all terrain cranes, remains stable, albeit with limited inventory, which has led to higher values in the secondary marketplace. Given the end of winter and beginning of the spring and summer sales cycles, secondary sales of cranes experienced a small increase at the tail-end of the first quarter and into the second quarter of 2017.

Auction activity in the secondary marketplace for cranes has been steady over the last six months as operators continue to trim their fleets as a result of a continued slump in the oil and gas sector. Used cranes tend to be valuable due to the long lead times and high costs associated with new cranes versus typical construction equipment, which are typically more generic in nature. However, recent declines in backlogs from OEMs have made new cranes a more attractive option, which has kept pricing for used equipment low. Overall, industry analysts anticipate growth in the secondary marketplace over the next five years at an annualized rate of 3.8% as a result of optimism over the oil and gas market, increased spending in infrastructure, and improvements in the commercial construction market.

Additionally, there has been increased merger and acquisition activity in the crane rental construction market, as Maxim Crane, LLC was recently sold by Platinum Equity, LLC to Apollo Global Management, LLC and subsequently merged with AmQuio Crane Rental, LLC to form the largest rental crane company in North America. This new entity, now known as Cloud Crane, LLC, acquired the working assets of Essex Crane Rental Corp., and recently announched the acquisition of Coast Crane Company, leading to further consolidation in the crane market.

Trucks & Trailers

Sales of new Class 8 tractors have continued to decline through the first quarter of 2017, with sales in March representing the 16th consecutive month of year-over-year declines. However, sales for used Class 8 tractors improved in February by 11% year-over-year, while pricing for these assets remained stable. Additionally, trailer orders for March 2017 have remained strong, with year-over-year growth primarily driven by demand for dry van trailers.

Demand for Class 8 tractors has increased in recent months based on optimism and revised sales forecasts for 2017. After a slow 2016, analysts were expecting further sales declines of 5% in 2017. Sales for this segment are expected to be driven by positive sentiment for an improved construction market, as well as a resurgence of the energy sector. Some concern still looms as industry analysts are expecting a lull in mid-year orders as a result of a continued hold on purchase orders of large fleets, as well as freight tonnage not increasing at a rate that would sustain long-term growth. However, analysts have revised their early year forecasts from 200,000 units in 2017 to 220,000 units by the end of the year. Growth is expected to continue through 2018 and well into 2020, with 243,000 Class 8 tractors estimated to be built in 2018.

The average sales price for used Class 8 trucks through February 2017 was $40,731, down 3% compared with $42,047 a year earlier. The downward pricing trends have been declining at a slower rate in recent months, with analysts predicting a price floor of $40,000 per unit. Additionally, the average age of Class 8 tractors sold in February remained the same at 7.2 years as compared to the same period in 2016.

According to the American Trucking Association, although the seasonally adjusted For-Hire Truck Tonnage Index increased 0.7% in March 2017 versus 2016, it dropped 1% from February. Additionally, the adjusted tonnage rose 1.2% from the previous quarter and 0.2% from the same period in 2016.

Growth in the first quarter of 2017 has been driven by year-over-year increases in industrial production, retail sales, and construction starts. While growth is not expected to boom in the coming months, continued confidence in these sectors is leading analysts to expect moderate tonnage growth through the remainder of 2017.

In the secondary marketplace, pricing for used Class 8 tractors improved through the first quarter of 2017 compared to the second half of 2016, but experienced year-over-year declines. Year-over-year sales volumes in March have increased significantly in the resale market for used Class 8 tractors, while auction volumes have dropped slightly. Additionally, year-over-year sales prices in both the resale and auction markets were down approximately 5%. Lower prices for used equipment have primarily been driven by an oversupply in the secondary marketplace. Available inventory is expected to shrink as the year moves forward, which should help drive values for used equipment upward.

Another challenge that dealers have been facing in the beginning of 2017 has been scarcity of late-model equipment with low mileage. Dealers are also reporting that many buyers are reluctant to adopt trucks with engines compliant to 2007 EPA standards due to concerns regarding emissions systems and the cost of maintainance.

UPS and others continue to invest in CNG and LNG-powered trucks through adding CNG stations and over 390 vehicles. Since 2009, UPS has invested in more than $750 million in alternative fuel and advanced technology vehicles.

Trucks & Trailers

While trailer sales have continued to decline on a month-to-month basis since November 2016, growth has been strong compared to the same period in 2016. Trailer orders declined 20% in March versus the prior month, but increased 50% compared to the same period in 2016. A large portion of the growth in the first quarter has been driven by an increase in dry van orders, which have nearly doubled from the previous three-month period. The disconnect between the annual growth and month-over-month declines has been primarily attributed to extended backlogs in prior years pulling forward orders into the early months of the order season.

While the March numbers show a decline from the strong start to the year, analysts still anticipate 2017 to be a strong year for trailer production and orders. Auction results for trailers have remained relatively stable in recent months.

However, a downturn in the oil and gas sector will assert downward pressure on demand for these assets. Certain categories may be supported by other industries, such as flatbed trailers in the housing market and refrigerated and liquid tank trailers in the food and chemical sectors. However, until oil prices rebound to higher averages, trailer markets are expected to experience slow declines.

Looking forward, industry experts indicate that 2017 will represent a moderate growth year for the Class 8 tractor and trailer market, with 2018 through 2020 representing a stronger period of growth. Overall, industry revenue is expected to increase at an annualized rate of 2.2% to $49.4 billion over the five years to 2022. Accordingly, demand for new equipment, as well as equipment in the secondary marketplace, should continue to improve as operators look to increase capacity and update aging fleets in order to meet upcoming EPA standards.

Construction & Mining Equipment

After a slowdown at the end of 2016, sales of construction equipment in the secondary marketplace experienced a small increase in the first quarter of 2017 compared to both the previous quarter and the same period in 2016. The market for mining equipment continued to remain volatile, as the global commodities market drives demand and pricing for this sector.

Domestic nonresidential construction spending declined 1.0% in February 2017 versus 2016, but was flat compared to the prior month. Construction spending is expected to grow through 2017 at a rate of 6.3%, followed by a 7.2% increase in 2018, with increases in residential and commercial property construction spending leading the way. As a result, global sales of construction equipment are anticipated to grow 8% in the year. Industry analysts indicate that the growth in the construction sector will continue through 2021.

Accordingly, sales volumes in both the private resale and auction sectors have seen solid growth through the beginning of 2017, with values on used equipment remaining stable during this timeframe. The coming months are poised to see more activity in these sectors and values are expected to continue to hold.

Mining activity has declined significantly in recent years as a result of depressed global commodities markets for coal, copper, steel, and petroleum, among others, which have led to steep declines in pricing due to oversupply. The continued depression of these markets will eventually lead to a flood of used equipment in the secondary marketplace from business closures, driving used equipment pricing down. However, some in the industry believe that mining in the U.S., especially as it concerns coal, can make a small resurgence in the coming years and are optimistic for future growth. At the same time, this optimism has not translated into improved demand for mining equipment in the secondary marketplace.

Intermodal & Freight Rail

Weekly U.S. intermodal volumes increased 4.6% to 260,966 containers and trailers in April 2017 versus the same month in 2016, according to The Intermodal Association of North America. International container volumes in the first quarter of 2017 were the strongest since 2005, with domestic and international container volumes totaling 120,018 TEUs (20-foot equivalent units) in March 2017, representing an increase of 1.4% from March 2016 and an increase of 10% year-over-year, according to The Northwest Seaport Alliance, which comprises the ports of Seattle and Tacoma, Washington. However, total domestic volumes declined 8% for the month compared to the previous year due to soft market conditions.

According to The Association of American Railroads, U.S. railroads reported a cumulative volume of 3,576,158 carloads for the first 14 weeks of 2017, an increase of 6% from the same point last year, and 3,648,646 intermodal units, up 1.7% from last year. Total combined U.S. rail traffic for the first 14 weeks of 2017 was 7,224,804 carloads and intermodal units, an increase of 3.8% compared to 2016.

Total carloads for the week ended April 8, 2017 were 252,056 carloads, up 9.8% from the same week in 2016. Five of the 10 carload commodity groups posted an increase compared with the same week in 2016. These included coal, up 29% to 75,078 carloads; grain, up 26% to 23,778 carloads; and nonmetallic minerals, up 7.6% to 37,582 carloads. Commodity groups that posted decreases compared with the same week in 2016 included petroleum and petroleum products, down 15.7% to 10,020 carloads; metallic ores and metals, down 1.4% to 20,941 carloads; and forest products, down 1% to 9,929 carloads.

According to industry analysts, Class I railroads expect a high degree of uncertainty heading into 2017 after dealing with a lot of volatility throughout 2016. The macro-economic environement is facing several significant challenges, including an unstable global economy, a relatively strong U.S. dollar, and continued soft demand for consumer goods, especially those shipped via intermodal containers.

However, certain segments of the economy are improving and there is optimism regarding volume growth in some business segments. Overall, railroad industry executives expect continued headwinds for the intermodal market, with international volumes adversely impacted by a strained ocean carrier industry, which saw three major mergers and a bankruptcy in 2016.

Industrial Marine

As of April 3, 2017, the idle containership fleet stood at 0.97 million TEUs, according to maritime research firm Alphaliner, totaling in 4.8% of the total fleet. This represents a sharp decline from close to 1.6 million TEUs at the start of the year. The reduction in idling containership has been primarily driven by the roll out of networks by new alliances. The three new alliances, which replaced the previous four, control 77% of global containership capacity, and as much as 96% of all east trades, per Alphaliner.

On the supply side, only eight ships have been ordered, all consisting of small ships (1,750 to 2,150 TEU) and all at Chinese shipyards. The order books continue to hold three million TEU that is yet to be delivered, of which 86% is scheduled for delivery in 2017 and 2018.

Alphaliner indicates that approximately 80% of the capacity scheduled for delivery in 2017 will come in the form of ships that are 9,400 TEUs or above.

Container carriers ramped up scrapping in the first two months of this year due to declining in-ship demand and charter rates. In the same period, 19 containerships with a total capacity of 58,000 TEUs have been sent for scrapping, continuing a late 2015 surge in vessel demolition. Of those scrapped, 12 ships were under 20 years old and nine were 4,000 TEUs, which maritime analysts said was an indication that more ships were coming on to the scrapping radar. “Demolition prices remain unattractively low but many owners, particularly of the non-operating kind, have decided that with charter rates falling they are even better off recouping some residual value from their assets from the scrap market,” said an analyst from maritime research firm Drewry.

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, Chesapeak Construction, City of Cedar Hills, Cook Harriet Construction, DE Rice Equipment Construction, Flint Energy, Ibarra Concrete, James River Coal, Joe Bland Construction, Marine Pipline, 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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