TRANSPORTATION PUSHES FORWARD

CRANES AND LIFT EQUIPMENT
Crane demand improved over the last six months due to continued improvements in the construction sector.

TRUCKS AND TRAILERS
Sales of Class 8 tractors increased for three straight months in the third quarter of 2017.

CONSTRUCTION AND MINING EQUIPMENT
Global construction equipment sales picked up, while the market for mining equipment remained volatile.
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Overview

Transportation markets continued to exhibit modest performance in the third quarter of 2017. Oil prices have rebounded in recent months and the subsequent increase in new drilling activity has helped bolster demand for rolling stock and construction equipment related to this sector. Additionally, consumer confidence has increased to its highest point in nearly 17 years, which has led to increased consumer purchases, necessitating additional transportation services to get goods to consumers.

The markets for cranes and other lift equipment continued to grow in the third quarter, as improved oil and gas prices, combined with increased demand for commercial and residential construction, have fueled steady growth in this area. Accordingly, construction equipment sales are expected to grow by 25% through 2021.

Similarly, the North American truck and trailer markets had a strong third quarter as sales of class 8 tractors outpaced sales figures from the same period in 2016. As more fleets continued to purchase newer, more fuel-efficient vehicles, the secondary marketplace saw an increase in used tractors in the three- to five-year range, which has held values in check in recent months.

Secondary marketplace activity has seen an uptick in sales, while sales prices have remained flat. New construction starts have been trending upwards on a month-to-month basis, with this trend expected to continue for the foreseeable future as the economy improves. Mining equipment continues to be a slow-moving market, with relatively flat sales and sale prices in recent months.

The North American intermodal market continued its strong performance from the beginning of the year in the third quarter of 2017, with revenue increasing 6.3% compared to the same period last year, marking the strongest growth rate in over three years, according to the latest report from the Intermodal Association of North America (“IANA”). The industry experienced continued recovery for all three intermodal segments. Additionally, industry analysts forecast that 2018 will also be a strong year for the intermodal industry, as all sectors continue to improve.
The secondary marketplace for cranes and lift equipment has been positive in the third quarter of 2017. Growth is expected in the industry due to improvements in the construction industry primarily resulting from increased spending on commercial building and infrastructure. Additionally, rebuilding efforts in the southern and southeastern regions of the U.S. after Hurricanes Harvey and Irma have led to improved utilization rates for rental fleets due to assets being moved into these areas in order to assist with rebuilding efforts.

Accordingly, OEMs reported record increases in orders, backlogs, and profits through this time frame. Lastly, recent changes in production from manufacturers such as Leibherr and Manitowoc have led to improved profitability during this increase in orders and sales in recent months.

Demand for cranes has improved over the last six months due to continued improvements in new construction starts, increased infrastructure spending, and an improved oil and gas sector. Tower cranes continue to be in high demand throughout the U.S. as utilization rates remain at significantly high levels as reported by crane rental companies. However, OEMs have reported stagnant demand for crawler cranes, as improved domestic demand has been offset by decreased global demand.

The most common crane in the secondary marketplace continues to be the rough-terrain crane due to its relatively high lifting capacity compared to its size, as well as its maneuverability. Rough-terrain cranes continue to be a staple of the truck-mounted crane industry and demand has continued to be strong in recent months.

Auction activity for cranes has been steady over the last six months, while new crane sales have risen and used cranes have continued to supply the secondary marketplace. 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 are more generic in nature.

As backlogs and lead times for new equipment have increased in recent months, the demand for used equipment in good condition has increased in the secondary marketplace. Most sought are cranes in good condition, with relatively low hours, and of newer vintage. The resurgence of the oil and gas sector along with continued growth in new construction starts have led industry analysts to revise growth forecasts for this sector over the course of the next few years to an annualized rate of 4.5% through 2021.
After 19 months of year-over-year declines for new class 8 tractor sales, the third quarter of 2017 experienced three straight months of year-over-year sales improvements. Research firm America’s Commercial Transportation Research Co. reported that retail used truck sales were up in both monthly and yearly comparisons in the class 8 market. Outlooks remain positive for the sector, which enjoyed a 19% year-over-year growth through September 2017.

The marketplace for new class 8 tractors is up 9% month-over-month, and roughly 28% year-over-year. However, the secondary marketplace has yielded mixed results in recent weeks, as the average price for class 8 tractors has improved by 5% since December 2016, but remains 3% below levels in 2016. While new sales continue to improve, prices in the secondary marketplace are expected to remain flat through 2018. Demand is anticipated to remain steady in the coming months as the need to replenish trucks lost in the wake of Hurricane Harvey and Hurricane Irma, as well as the need for new construction trucks to aid in rebuilding efforts, will bolster the market, especially for light and medium-duty trucks.

The average sales price for Class 8 trucks through the third quarter of 2017 was $39,800 per unit, down 7.8% compared with an average sales price of $43,200 per unit a year earlier. While prices have been declining, the declines have been at a slower rate in recent months compared to rates seen at the beginning of the year. Additionally, the average age of a Class 8 tractor sold in the third quarter of 2017 rose to 7.3 years versus 7.1 years during the same period in 2016. Average mileage fell from 462,000 miles in 2016 to 452,000 miles in the current year.

As reported by the American Trucking Associations (“ATA”), although the seasonally adjusted For-Hire Truck Tonnage Index increased 7.4% in September 2017 versus the same period in 2016, it declined 0.9% from the prior month.

Additionally, the index rose 5.8% on a year-over-year basis for the first nine months of 2017 versus the same period in 2016. Growth in 2017 has been driven by increased year-over-year industrial production, retail sales, and construction starts. Continued confidence in these sectors is leading analysts to expect moderate tonnage growth through 2023, with an expected increase of 2.8% for the remainder of 2017, and an annualized increase of 3.4% through 2023.

Industry analysts project that revenue for the trucking industry will top $1 trillion by 2024, with growth driven by projected annualized growth of 5.4% between 2018 and 2023. Growth is then expected to slow to 4.7% through 2028, with industry revenue totaling $1.24 trillion by the end of that year. The ATA’s annual report forecasts that total truck tonnage will increase to 12.6 billion tons in 2023 and 13.9 billion tons in 2028, up from 10.4 billion tons in 2016, which represents an annual growth rate of 2.7% between 2018 and 2023, and a 2.0% growth rate between 2024 and 2028.

While for-hire carrier revenue fell 3.8% to $368 billion in 2016, it is expected to rise 5.4% annually between 2018 and 2023 to $538 billion, and is projected to hit a mark of $679 billion by 2028. Truckload carrier revenue is forecast to reach $454 billion by 2023 and $568 billion by 2028 for an average annual increase of 5.4% between 2018 and 2023, and an increase of 4.7% between 2024 and 2028. Growth in this sector is expected to be driven by improvements in manufacturing, consumer spending, and international trade.

Additionally, the long-term outlook for new class 8 trucks may potentially be impacted by Tesla’s prospective launch of new class 8 electric trucks, which can lead to increased innovation and investment for the trucking sector, as more fleet operators seek to be compliant with guidelines set forth by the California Air Resources Board, as well as reduce their environmental footprint and operating costs.
Trucks & Trailers

Trailer orders have rebounded through 2017 as September orders increased 47% versus the prior month and 84% year-over-year. A large portion of growth in 2017 has been driven by the increase in dry van trailer orders, which has continued to be a strong component for this segment.

The growth in September was a drastic increase compared to August, which experienced a 9% month-over-month increase and a 4% year-over-year increase. Analysts expect the elevated order total to remain intact for the remainder of 2017, which should yield a strong 2018 as the vocational segments continue to grow as a result of continued improvement in the general economy.
Global construction equipment sales have picked up in 2017, after a downturn between 2012 and 2016, with forecasts suggesting that 810,000 units will be moved by the end of this year, representing an increase of 16% from 2016. There has been an increase in demand across most global regions, with sales in China representing the largest segment of growth during 2017. However, the market for mining equipment remained volatile, as the global commodities market drives demand and pricing in this sector.

Domestic non-residential construction spending increased 0.5% in September compared to the prior month, but declined 3.0% year-over-year. Expectations at the beginning of the year were for strong growth through the remainder of 2017 and into 2018 based on the optimism of incoming legislative spending and tax reform associated with the current administration’s agenda. However, due to the government stalling on some of these matters, construction spending in 2017 has been modestly disappointing. Accordingly, forecasts for 2017 have been revised to an annualized rate of 4.0%, down from earlier forecasts of 5.6%, while forecasts for 2018 have been revised to 3.6% versus earlier forecasts of 4.9%. However, despite revised domestic spending forecasts, global demand, most notably in China, has helped spur the growth of construction equipment sales.

The secondary marketplace for construction equipment has seen a slight uptick in pricing throughout 2017 as the demand for construction equipment continues to be strong. Pricing for new equipment has continued to move upward, which has helped to keep pricing up for the used equipment. Equipment related to infrastructure and non-residential construction, such as excavators, wheel loaders, bulldozers, motor graders, and other similar goods, are expected to maintain increased demand for the foreseeable future.

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 are optimistic for future growth and believe that mining in the U.S., especially as it concerns coal, could make a small resurgence in the coming years. At the same time, this optimism has not translated to improved demand for mining equipment in the secondary marketplace.

However, industry analysts anticipate long-term growth for the global mining industry. Industry experts indicate that while the market is experiencing a downward cycle, it will rebound through 2018 as demand for U.S. coal exports keeps coal production levels up. The U.S. Energy Administration (“EIA”) expects coal production to improve by 4.7% year-over-year in 2017 and 1.5% in 2018. The EIA expects an increase in U.S. coal exports to contribute to a 5% rise in coal production in 2017. The likely growth in coal-fired electricity generation is also expected to lead to an additional 1% increase in coal production in 2018.
The intermodal and rail transportation markets continued to show signs of recovery in the third quarter of 2017. While rates are slowly starting to trend up again, service levels remain below ideal levels. All of the aforementioned factors, combined with a constantly changing regulatory environment, continue to make the intermodal and freight transportation market a multifaceted, competitive, vibrant, and challenging industry.

According to the most recent report from the IANA, total intermodal volumes climbed 6.3% year-over-year in the third quarter of 2017, including an 8.2% growth in the international intermodal volume and a 3.8% growth in the domestic container market. Trailer loads exhibited the strongest growth at 8.4%. The seven highest-density trade corridors accounted for 62.9% of total volume and were collectively up 5.2% for the third quarter. The Eastern-Western Canada corridor, up 12% for the period, showed the largest gain. Three other lanes showed growth of 5.0% after experiencing losses in the third quarter of 2016: the South Central-Southwest at 9.2%, Southeast-Southwest up 7.7%, and the Northeast-Midwest at 5.9%. The Intra-Southeast corridor declined 0.2%, while the Midwest-Northwest corridor dropped 6.1%.

Railroad traffic continues to improve, a trend that started in late October 2016. All Class I railroads, with the exception of BNSF, experienced decreases in velocity for the 39th week of 2017 due to continued improvement of coal loadings, as well as increased traffic related to Hurricane Harvey and Hurricane Irma. Six thousand cars were drawn out of storage in September primarily due to increased demand stemming from the cleanup efforts in Texas and Florida.

According to The Association of American Railroads (“AAR”), U.S. railroads reported a cumulative volume of 10,106,660 carloads for the 39th week of 2017, which reflects an increase of 3.8% year-to-date versus 2016. Four carload groups posted declines in carloads versus 2016, while coal was up 12.3%. Chemicals, grain, and nonmetallic minerals were up 0.2%, 0.3%, and 8.0%, respectively, while motor vehicle parts, petroleum, forest products, and farm products declined 7.4%, 14.8%, 1.6%, and 1.7%, respectively.

While indicators point to a positive close of the year for Class 1 railroads, the industry continues to be threatened by proposed regulations. The State Transportation Board’s proposal of reciprocal switching, also referred to as forced access by the AAR, represents the railroad industry’s main threat. Per this proposal, shippers who do not have access to other modes of transportation will be allowed to use a competing rail line without any additional pricing and possibly below market rates, which would negatively impact the industry.

Per AAR, this regulation might disrupt railroad operations, cause revenue losses, and increase overall costs for railroads. Reciprocal switching would result in railroad companies spending money on infrastructural developments that can be used by competitors without paying sufficient returns in exchange. Other proposals, such as reregulation of certain commodities and introducing a price cap for the amount charged by railroads to shippers, are also major concerns for the industry.
According to maritime research firm Alphaliner, 182 ships, or 474,000 twenty-foot equivalent units (“TEUs”) have been idled as of August 2017. As the idle fleet has not changed much over the previous three months, demand growth has lifted rates instead of reactivating the unemployed ships. While a lot of container shipping companies continue to lose money, rates have climbed and managed to stay up, resulting in owners shying away from scrapping their ships.

Only seven small units were sold for demolition in June (9.6 TEUs in total), compared to the all-time high level in January, where 29 units (99.9 TEUs) were demolished, representing a decline of 90%. The Baltic and International Maritime Council (“BIMCO”) estimates that approximately 450,000 TEUs will be demolished by the end of 2017, with 306.8 TEUs demolished as of August. BIMCO indicates that the year will end with low demolition rates and slower demand growth versus the beginning of the year.

During the first-six months of 2017, 26 ships of over 14,000 TEUs had been delivered. In total, over 700,000 TEUs in capacity is expected to be delivered between August 2017 and January 2018.

BIMCO indicates that no new orders are being placed, with less than 400,000 TEUs contracted since December 2015, which is significantly lower than July 2015 alone, which saw orders for 435.3 TEUs placed (50 contracts). However, BIMCO expects that this low level of orders will be difficult to maintain, as optimism in the market grows and eager shipyards and shipping companies fight to take top market share away from one another.

On an international scale, French shipping group CMA CGM announced that it plans on building nine of the world’s largest container ships at two Chinese shipyards. Shanghai Waigaoqiao Shipbuilding Co confirmed that it and its sister yard, Hudone-Zhonghua Shipbuilding Co, had received a letter of intent from CMA CGM for the ships, which would be capable of carrying 22,000 TEUs. In recent years, global container shipping lines have been competing to build the biggest ships in order to gain economies of scale to reduce shipping costs. However, industry participants suggest that such mega-ships can potentially be held responsible for the overcapacity surplus that is negatively impacting the container industry. Additionally, some in the industry indicate that these new mega-ships would not be able to pass through the newly widened Panama Canal, and would therefore only be able to unload at select U.S. West Coast ports.
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.

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