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Heavy Mobile Equipment *Monitor*

Steady growth leads to a positive outlook for 2014.



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Introduction

The various sectors of the heavy mobile equipment market have shown growth in the fourth quarter of 2013, and are expected to continue to do so into 2014. Improvements in the domestic marketplace will be the primary driver of this growth. Foreign markets are expected to remain steady, encouraged by growth in China and Eastern Europe that will work to mitigate declines in other parts of the world.

Crane and lift equipment values in the secondary marketplace continued to grow steadily in the fourth quarter of 2013. Moving into 2014, similar slow, steady growth is expected in all categories of this market segment, with rough terrain cranes expected to be in highest demand. Technological advances in this category, as well as with boom trucks and telehandlers, have added increased versatility that has been a major driver of demand in recent months.

The construction equipment market has also experienced stability in the final months of 2013. Strong growth in the domestic energy sector, coupled with a rebounding domestic housing market, has helped to further the improvements that were experienced in the construction equipment marketplace in 2012 and the first half of 2013. Foreign markets also appear to be on the rebound as the global economic outlook improves. Significant growth is expected in the construction market in 2014, with commercial construction leading the way.

Intermodal equipment orders and shipments experienced record highs in 2013. Following this trend, the rail industry is expected to experience significant growth in 2014. Month-over-month and year-over-year growth is expected to continue as the domestic energy sector continues to expand. As pressure builds on the domestic trucking industry, the demand for intermodal freight transport has grown significantly. The secondary marketplace for intermodal equipment is expected to mirror this growth as demand continues to increase.

Rolling stock continued to experience steady growth in the last months of 2013. Orders for class 8 trucks continued to rise, however, at a lower rate than the first half of 2013. Traditional economic indicators bode well from the growth of the industry in 2014. New emissions standards, intended to mitigate climate change, have forced fleet managers to begin the process of updating aging fleets. However, with the high cost of new equipment, the secondary marketplace has become an increasingly more desirable option for the acquisition of rolling stock.

Recent Appraisal Trends

CRANES AND LIFT EQUIPMENT

Global demand for cranes and lift equipment is expected to grow in 2014. Many categories, such as rough terrain cranes, boom trucks, and telehandlers, have experienced strong gains in recent months. Additionally, tower cranes have experienced noticeable growth in the domestic marketplace as end-users continue to see them as more viable options than they had in recent years. However, other categories, specifically categories of larger equipment, such as crawler and all-terrain cranes, have not seen such growth. In total, the crane sector is up 11% in sales volume year-over-year, and that trend is expected to continue into the new year.

In the domestic secondary marketplace, rough terrain cranes have experienced gains in demand, driving strong values for this type of equipment. Rough terrain cranes with high capacities are becoming more desirable for a variety of tougher jobs not previously considered. Also, new government emission standards have begun to affect the crane industry leading to increase demand for smaller machines. Many late-model rough terrain cranes were manufactured with better emissions output than will be required by law for several years. Demand for these cranes on the secondary market will continue to increase as operators look to avoid high costs and lead times associated with new equipment.

Large capacity cranes continue to experience high demand in recent months in overseas markets. China and India, with their major infrastructure projects, have been the primary driver of this increase in demand for this type of equipment. The domestic market, however, has remained relatively stagnant over the past year due to construction on domestic housing rather than infrastructure and utility



2012 Caterpillar TH103 Telehandler

projects. Accordingly, recovery values for these types of units are expected to be stronger in international secondary markets.

The secondary marketplace for boom trucks also continues to see appreciable growth as demand for these units increases. Boom trucks are the lift-of-choice for many housing, oil and gas, and utility operations given the versatility that they offer. Load capacities and boom lengths are continuing to increase leading to further demand in the secondary marketplace. As these trends continue, the demand and recovery values for boom trucks will continue to increase.

One key area of growth in the lift equipment sector has been the proliferation of telehandlers. This type of equipment has seen significant gains in the marketplace over the last two and a half years. Values for late-model telehandlers have experienced solid gains over that time period. The lifts are compact and more maneuverable than larger cranes and boom trucks, making them ideal for smaller and more complicated sites. Recently, load capacities for these machines have increased dramatically leading to higher demand in the secondary marketplace. Further, the advent of new roto-telehandlers has made this variety of equipment even more capable and desirable. In the future, as these telehandlers continue to increase their capabilities, it is expected that the demand for smaller cranes and boom trucks may decrease as operators look toward telehandlers for a cheaper lifting option.

CONSTRUCTION AND MINING EQUIPMENT

Used construction equipment values stayed relatively flat throughout 2013 but are expected to begin to increase in 2014. According to the McGraw-Hill Dodge Construction Outlook, the domestic construction market saw a 9% increase in construction starts in 2013 over 2012, representing the strongest gain in several years. In 2014, this growth is expected to be driven primarily by commercial building, which is expected to increase over 15% in the coming year. Equipment types associated with these projects will see strong demand in the secondary marketplace as contractors look to acquire equipment to meet the increased number of projects. A recent survey of fleet managers indicated that 51% expected to purchase equipment in 2014 in order to complete their projects; an additional 27% plan to rent or lease equipment. Such increased demand will invariably lead to increased values on the secondary marketplace as these fleet managers look to acquire equipment quickly.

Recent Appraisal Trends



2012 John Deere 310J Backhoe Loader

The primary driving force in the demand for construction equipment in recent months has been the expansion in the domestic oil and gas industry. Equipment devoted to these operations continues to be in particularly high demand, especially in oil and gas producing regions. Further, the expansion of this industry has begun to exhibit a trickle-down effect into construction projects in industries associated with oil and gas operations. Energy-intensive industries such as steel, glass, and fertilizer operations have seen a surge in demand for new plants leading to increased demand for construction equipment.

Moving forward, the improvements in the domestic construction markets will be assisted by the more positive outlooks for the same markets overseas, most specifically the Middle East. As the Middle East slowly moves away from solely relying on oil and gas operations, many firms are moving toward infrastructure construction projects. Unfortunately, domestic exports of construction equipment fell in 2013 as a result of mostly poor overseas markets in Western Europe, Asia, and Australia. However, Canada, Mexico, and Central America remain strong importers of American equipment and good targets for sales of used equipment.

INTERMODAL FREIGHT TRANSPORTATION

The rail industry as a whole is expected to continue the modest growth that has been experienced during 2013, for the next five years. Freight volumes continue to improve alongside improving labor markets, leading to increased demand for rail transportation across multiple industries.

Improved consumer spending, spurred on by an improved economic outlook in North America, has led to increased intermodal traffic resulting in record highs for shipments in 2013. Yearly totals for domestic intermodal freight are beginning to match international cargo totals, indicating a strong future for the industry.

The end of 2013 saw continued gains in the demand for new and used freight cars. In November, container traffic rose 9% over October and was up 11% year-over-year, reaching record highs at the end of 2013. This trend is expected to continue into 2014 based on multiple factors, including the expansion of oil and gas operations in North Dakota and Texas. Coupled with increased environmental pressure on the trucking industry, this will help to strengthen intermodal transportation as a more efficient and cost effective way to transport goods. Further, ports and railroads throughout North America have begun gearing up for increased intermodal traffic in the coming years. Rail expansion has accelerated in Mexico and Central America to meet the upcoming demand, creating more viable markets for intermodal equipment in these countries and increasing demand throughout the continent.

While all intermodal equipment is experiencing improved recovery values in the secondary marketplace, the largest gains have been seen in the chassis market. Chassis are usable across a wide variety of intermodal and transportation purposes, and are seldom damaged beyond what cosmetic maintenance can handle. Chassis, therefore, maintain a very high portion of their value and are not subject to the same useful life concerns as other intermodal equipment such as containers themselves.



Flatbed Railcar

Recent Appraisal Trends

ROLLING STOCK

The market for class 8 tractors has continued to rebound from recent declines. The fourth quarter of 2013 saw a surge in sales volume resulting in a 13% year-over-year increase. However, this increase only helped to offset poor numbers from earlier in the year resulting in a total gain of only 1% for the entirety of 2013.

The market for class 8 tractors had been affected by multiple factors throughout 2013. New emission standards intended to offset climate change have resulted in the decommissioning of many older tractors, driving high demand for late-model equipment in the secondary marketplace. New class 8 tractors are being produced with an eye toward being many years ahead of new regulations; however, with the costs of new tractors up almost 20% over the last few years, demand for new equipment is expected to be tepid. This trend will result in increased demand for late-model tractors in the secondary marketplace as fleet managers look to keep fleet ages in check.

Moving into 2014, many fleets are looking at potentially large income tax bills that may affect their ability to purchase equipment. The end of 2013 saw the end of a program of bonus depreciation that allowed trucking companies to offset the purchase of new equipment with the sale of fully depreciated assets. Industry and financial experts have estimated as much as 40% of companies' cash kept available for equipment purchases may have to be allocated to these new taxes. It is expected that the



2013 Kenworth T800 Truck Tractor



2001 Polar Tank Trailer

decrease in available spending cash, coupled with the high price of new equipment, will make late-model items on the secondary market a more desirable option for managers updating their fleets.

Trailers have continued to experience growth in the second half of 2013, with trailer orders reaching their highest volume in 11 months at the end of the year. Increased demand for dry van trailers continues to be the primary driver of this trend. Tank trailer demand has also increased with the expansion of heavy energy production in North America. However, a large portion of this growth has been attributed to the replacement of older items rather than fleet expansion. These factors have led to relatively stagnant sales numbers in the secondary marketplace.

Lastly, it is important to note that impending changes driven by new federal mandates for energy efficiency standards for trailers, coupled with stricter standards for tractors, will impact the market for older used equipment that may not fall within the confines of these new guidelines.

Experience

GA has been involved in the asset disposition of many industrial contractors, rental construction equipment companies, oil and gas service companies, and freight haulers. Recent transactions include:

- Affholder Construction
- American Sand & Gravel
- Canron Construction
- Chesapeake Construction
- City of Cedar Hill
- Cook Harriet Construction
- DE Rice Equipment Construction
- Ibarra Concrete
- Joe Bland Construction
- Marine Pipeline
- Mohawk Concrete
- Pease Construction
- Pickus Construction
- R.E. Holland/American Excavating
- Rinker Material Group/Twin Mountain Rock
- Roads Construction
- SelectBuild (BMC West)
- Stigler Construction
- Super Transport
- Tamrock Drill Rigs
- U-Brothers
- Victory Industrial
- WDC Exploration



In addition, GA has conducted a wide variety of appraisals of HME assets. Given our experience in both the valuation and disposition of HME assets, GA is uniquely qualified to not only render value opinions, but to also assist with your liquidity needs through the sales of surplus and/or idle HME assets.

Monitor Information

The *Heavy Mobile Equipment Monitor* relates information covering a variety of heavy mobile equipment (“HME”) assets, such as cranes and lift equipment, construction equipment, intermodal freight transportation, oilfield and gas equipment, and rolling stock. Great American Group Advisory & Valuation Services, L.L.C. (“GA”) provides our customer base with a concise document highlighting the HME industry, including industry trends, market pricing, and their relation to the valuation process.

Due to the nature of certain HME assets, timely reporting is necessary to understand an ever-changing marketplace. 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.

GA’s Heavy Mobile Equipment Monitor provides market value and industry trend information for a variety of HME products. The information contained herein is based on a composite of GA’s industry expertise, contact with industry personnel, industry publications, liquidation and appraisal experience, and data compiled from a variety of well-respected sources believed to be reliable. We do not guarantee the completeness of such information or make any representation as to its accuracy.

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About Great American Group

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale, and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. In addition to the Heavy Mobile Equipment Monitor, GA also provides clients with industry expertise in the form of monitors for the chemicals and plastics, metals, food, and building products sectors, among many others. GA offers the European Manufacturing Monitor via its subsidiary, GA Europe Valuations Limited.

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