# GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

## Heavy Mobile Equipment Monitor

### April 2011

## In this Issue:



### Introduction

Welcome to the premier issue of the Heavy Mobile Equipment Monitor from Great American Group Advisory & Valuation Services ("GA"). This publication will provide you with market value and industry trends for a variety of heavy mobile equipment ("HME") assets.

The enclosed information represents a composite of GA's industry expertise, well-respected industry publications, liquidation and appraisal experience, and contact with industry personnel. 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.

This inaugural issue relates information covering most HME products, including industry trends, market pricing, and their relation to the valuation process. GA provides our customer base with a concise document highlighting the HME industry.

GA welcomes the opportunity to make our expertise available to you in every possible way. Please feel free to contact us at any time.

### Scope of Information

This Monitor provides you with information concerning the major types of assets within the HME industry: cranes and lift equipment; construction equipment; intermodal freight transportation; oilfield and gas equipment; and rolling stock. We are always mindful to

adhere to your request for a simple reference document. 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.

# 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 *HME Monitor*, GA also provides clients with industry expertise in the form of monitors for the metals, building products, food, automotive, and chemicals industries, among many others.

**Headquarters:**

21860 Burbank Blvd.
Suite 300 South
Woodland Hills, CA 91367
800-45-GREAT
www.greatamerican.com

**Atlanta**
**Boston**
**Chicago**
**Dallas**
**London**
**Los Angeles**
**New York**
**San Francisco**

# 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
- Rinker Material Group/Twin Mountain Rock
- Canron Construction
- Chesapeake Construction
- Cook Harriet Construction
- DE Rice Equipment Construction
- Ibarra Concrete
- Joe Bland Construction
- Marine Pipeline
- Mohawk Concrete
- Pickus Construction
- R.E. Holland/American Excavating
- Roads Construction
- SelectBuild (BMC West)
- Stigler Construction
- Super Transport
- Tamrock Drill Rigs
- U-Brothers
- Victory Industrial

In addition, we have conducted a wide variety of appraisals of HME assets. Given our experience in both the valuation *and* disposition of heavy mobile equipment, GA is uniquely qualified to not only render value opinions, but to help your liquidity needs through the sales of surplus and/or idle HME assets.

# DISPOSITION SERVICES & APPRAISAL

## BUSINESS DEVELOPMENT

**Mike Marchlik**
National Sales & Marketing Director
mmarchlik@greatamerican.com
818-746-9306

**Drew Jakubek**
Vice President - Southwest Region
djakubek@greatamerican.com
972-265-7981

**Daniel Levene**
Vice President - Western Region
dlevene@greatamerican.com
818-746-9327

**Ryan Mulcunry**
Senior Vice President - Northeast Region, Canada & Europe
rmulcunry@greatamerican.com
617-692-8310

**Fred Raccosta**
Senior Vice President - New York/Mid-Atlantic Region
fraccosta@greatamerican.com
646-381-9204

**David Seiden**
Executive Vice President - Southeast Region
dseiden@greatamerican.com
770-551-8114

**Bill Soncini**
Vice President - Midwest Region
bsoncini@greatamerican.com
312-777-7945

## OPERATIONS

**Mark Weitz**
President
mweitz@greatamerican.com
818-884-3737

**Michael Petruski**
Executive Vice President,
General Manager
mpetruski@greatamerican.com
818-884-3737

**Marc Musitano**
Chief Operating Officer
mmusitano@greatamerican.com
818-884-3737

# OVERVIEW—Recovery Values of Heavy Mobile Equipment

Recovery values across the HME categories can be attributed to several factors, including housing construction starts, commercial construction starts, finished goods transportation, and oil and gas prices. Companies operating in the HME space as both contractors and service providers must contend with a variety of factors that can affect various industries.

Recovery values have seen an upward trend through the first quarter of 2011 across most categories. Increased manufacturing production and recent stimulus spending have led to an increased demand in the transportation of goods, as well as investment in the construction and maintenance of infrastructure. Additionally, new commercial construction starts, specifically those tied to the energy sector, have also helped to promote the recovery values of some HME categories in the secondary marketplace.

However, new housing construction saw a drop in the first quarter of 2011 to its lowest levels since 2009. As the housing market continues to struggle while other parts of the economy recover from recent economic setbacks, equipment tied heavily to this sector remains idle. Recovery values associated with these assets will continue to remain depressed until the housing market experiences a sizeable recovery.

# RECENT APPRAISAL TRENDS

## CRANES and LIFT EQUIPMENT

The secondary marketplace for cranes has seen an upswing in recovery values through the first quarter of 2011 across nearly all categories. Larger-tonnage rough-terrain cranes, hydraulic truck cranes, and conventional crawler cranes have seen a marked increase in demand due to commercial construction related to the energy sector. Rising oil and gas prices have fueled the demand for alternative energy sources, in turn increasing the demand for the equipment necessary to construct the related facilities. Wind turbine construction and to a smaller degree nuclear power plant construction have seen steady increases in recent months. However, due to the recent events in Japan related to the nuclear catastrophe, a backlash against this alternative energy source could hinder additional facility construction in the future.

Lower-capacity equipment tied to housing construction continues to fare poorly. New housing starts continue to remain low, and equipment associated with this sector of the industry is in surplus and oftentimes idle. Similarly, tower cranes utilized for the construction of high-rise buildings remain in low demand, with recovery values for this equipment remaining depressed accordingly.

Recovery values on personnel lift equipment have seem small upward movements in recent months; however, these values are historically low as a ratio of cost due to the quantity found in the secondary marketplace for this type of equipment.



## CONSTRUCTION EQUIPMENT

Construction equipment has seen a marked improvement in recovery values in recent months due to a variety of factors. The recovery value of late-model equipment has seen a particular increase as contractors and others in the business have sought to replace their existing, aging fleets with newer equipment. Through the economic downturn, many companies extended the normal useful life of their equipment as opposed to replacing portions of the fleet so as to maintain more liquidity during this time. As the economy started to pick up and the values for construction equipment in the secondary marketplace remained low, many in the industry sought to take advantage and update their fleets. Recovery values have in turn increased accordingly.

Recent stimulus spending on infrastructure in the United States has been a driving force behind the increased recovery values of construction equipment. Additionally, the increase in oil and gas prices has led to the expansion of drilling operations throughout the oil-rich parts of the country. Site preparation and cleanup equipment have seen an upswing in value as related to this. The recent catastrophe in Japan has increased the demand for construction equipment, as many parts of the country look to rebuild commercial and residential buildings, as well as infrastructure, industrial, and agricultural spaces. Japanese contractors have been purchasing large quantities of related construction equipment, increasing the recovery values of these items in the process.

Lastly, many manufacturers have started to buy back late-model equipment in an effort to keep the price of new equipment high. Higher new equipment costs in turn drive up the recovery values of late-model used equipment as an alternative to the purchase of new equipment.

# RECENT APPRAISAL TRENDS

## INTERMODAL FREIGHT TRANSPORTATION

Through the first quarter of 2011, the demand for intermodal freight transportation has seen strong growth. The manufacturing base in the United States has experienced a slight recovery from recent years, and consumer demand for goods has also increased. The long-distance transportation of goods has turned toward intermodal as the increase in gas prices renders the long-distance trucking industry a less viable option. Accordingly, orders for new railcars have increased significantly in recent months. Additionally, growth in this industry has seen the Hub Group, an intermodal and trucking brokerage services company, recently acquire the freight broker Excel Transportation Services for a fee of $83 million.

During the economic downturn, many operators shuttered portions of their railcar fleets as the demand for consumer goods dropped considerably. Additionally, many intermodal companies sought to take advantage of reduced prices in intermodal equipment and maintained capital expenditure rates with the expectation that once the recession was completed, intermodal demand would increase, as was historically the case. As such, many operators maintain sizeable railcar fleets and in recent months have brought back into service many of these shuttered railcars. While recovery values for intermodal equipment vary by railcar type and the demand for equipment is currently high, recovery values have remained relatively stable in recent months due to the sizeable fleet already in existence.


## OILFIELD AND GAS EQUIPMENT

Oilfield and gas equipment is tied heavily to the cost of oil and gas, consumer demand for these products, and regulations pertaining to oil and gas field exploration. The first quarter of 2011 saw oil prices reach upwards of nearly $120 a barrel due to increased global demand.

As oil prices increased, so did the demand for new wells to produce oil, as well as the demand for the equipment to perform the drilling. As the demand for oil and oilfield equipment remains high, the recovery values of these assets continue to remain stable in the secondary marketplace.

The Baker Hughes Rig Counts ("Baker Hughes") represent an important business barometer for the drilling industry and its suppliers. The active rig count serves as a leading indicator of demand for equipment used in drilling, completing, producing, and processing hydrocarbons.

The energy sector continues to improve on a year-over year basis, but has weakened for Canada and internationally on a week-over-week basis in recent months.

# RECENT APPRAISAL TRENDS

## OILFIELD AND GAS EQUIPMENT (Continued)

According to Baker Hughes data from April 8, 2011, the U.S. rig count totaled 1,782 rigs actively exploring for or developing oil or natural gas, increasing by six rigs from the previous week and up by 306 rigs versus April 9, 2010. The rig count peaked at 4,530 rigs in 1981, with a bottom of 488 rigs in 1999.

## AMERICAN, CANADIAN, AND INTERNATIONAL RIG COUNTS

| | United States | Canada | International |
|---|---|---|---|
| Date of Recent Rig Count | April 8, 2011 | April 8, 2011 | March 2011 |
| Count | 1,782 | 191 | 1,147 |
| Date of Prior Rig Count | April 1, 2011 | April 1, 2011 | February 2011 |
| Change From Prior Count | 6 | (94) | (42) |
| Date of Last Year's Rig Count | April 9, 2010 | April 9, 2010 | March 2010 |
| Change From Last Year's Count | 306 | 65 | 73 |

Through the first quarter of 2011, equipment related to the natural gas industry has remained in stable demand. Natural gas has remained near historical price points between $4 and $5 per thousand cubic feet in recent months. However, as the price of oil continues to increase, alternative energy sources will be sought, and natural gas will most likely see an increase in demand. The demand for related equipment will also see increases, and the recovery values for assets in the secondary marketplace will improve.

# RECENT APPRAISAL TRENDS

## ROLLING STOCK

The Class 8 tractor market has seen an increase in demand in recent months due to the improved manufacturing sector of the American economy, as well as the increased demand for consumer goods. Both short and long distance freight transportation have seen increases in workload in recent months, and in turn, increases in recovery values for related assets. However, most recently, as diesel gas prices have increased, the demand for long-distance, over-the-road freight transportation has shifted towards intermodal.

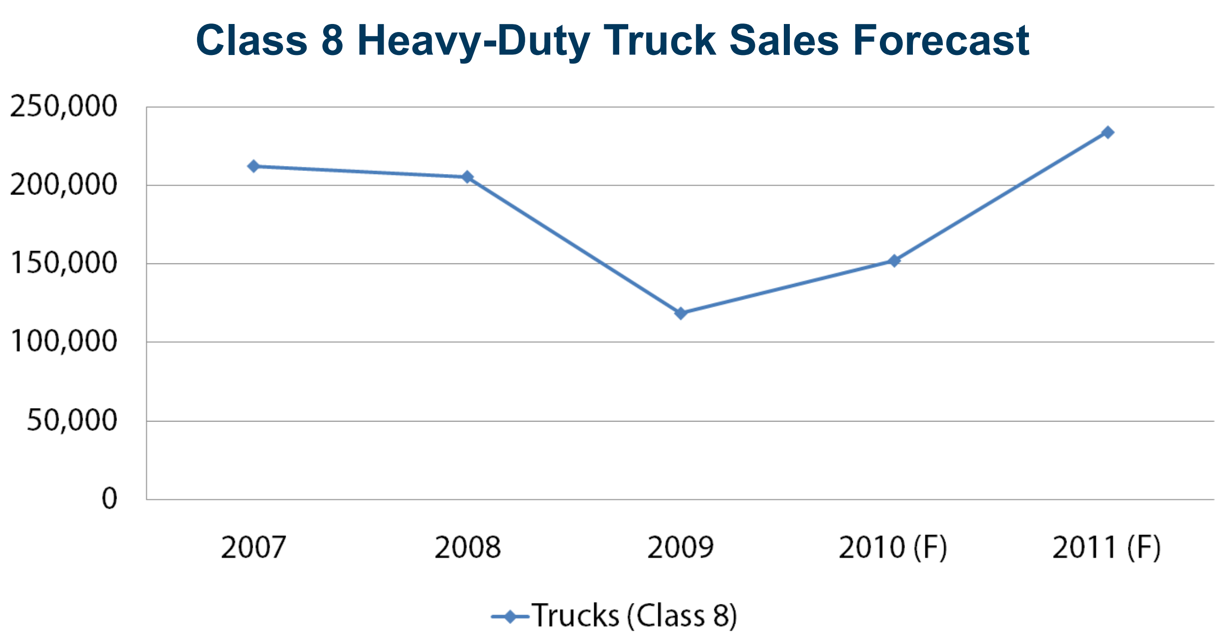
During the economic downturn, many operators extended the useful life of their fleets through more frequent and thorough maintenance. Accordingly, the average age of rolling stock fleets increased significantly. As the economy has picked up and as the demand for freight transportation has increased, many operators are looking to replace older rolling stock equipment with newer items. As a result, the recovery values for late model, used rolling stock have seen an increase.

In December 2010, net orders of heavy-duty Class 8 commercial vehicles for North America market were approximately 25,500 units, according to ACT Research Company ("ACT").

With nearly 71,000 orders booked for the fourth quarter of 2010, it was the best quarter for Class 8 vehicles since the second quarter of 2006. A combination of rising freight volumes, improving profits, rising used equipment values, and the oldest North American fleet on record have led to a resurgence in demand for new commercial vehicles. For 2011, ACT projects full-year production of Class 8 vehicles to reach approximately 234,000 units, up 51.8% from 2010.

Another contributing factor to the upswing in recovery values for late-model, used equipment has been the rising cost of new equipment. Increased emissions standards under the 2010 EPA standards and fuel efficiency standards have led to an increase in the cost of new equipment in the marketplace. A new 2010 Class 8 tractor can now cost as much as $135,000. As a viable alternative, operators have looked to purchase used, late-model equipment to replace their aging fleets.

However, as fuel prices continue to increase, the demand for long-distance, over-the-road freight transportation may begin to wane as companies look to more financially viable options for the transportation of goods.



## MONITORING POINTS—Heavy Mobile Equipment

| Monitoring Point | Impact |
|---|---|
| Monitor housing and commercial & industrial construction growth. | As these markets are large users of heavy equipment, they are vital to the construction equipment and rental industries. This increase in construction creates greater demand for construction equipment, hence increasing recovery values. |
| Monitor the earthquake/tsunami crisis in Japan. | Due to the level of destruction caused by the March 2011 earthquake and subsequent tsunami, Japan is importing construction equipment from around the globe. Recovery values have increased accordingly. |
| Monitor the price of oil and gas. | As the price of oil and gas increases, it becomes more profitable to source oil from deeper, less accessible reservoirs. This type of drilling requires heavier-duty equipment for inaccessible, high-pressure drilling. |

## MONITORING POINTS—Heavy Mobile Equipment

| Monitoring Point | Impact |
|---|---|
| Monitor international infrastructure improvement initiatives. | Heavy infrastructure construction continues to bring accelerated growth to the construction equipment industry. Growth has expanded on an international level, with major players such as John Deere and Caterpillar expanding in emerging markets throughout Asia, Latin America, and Eastern Europe. |
| Monitor manufacturing production and retail spending. | Lower manufacturing production and decreased retail spending caused a decline in demand for local freight trucking during the economic downturn. This, accompanied by rising fuel costs, has engaged industry operators in price competition and lower profit margins. Recently the manufacturing base has improved, increasing demand for over-the-road freight trucking. |
| **Monitor alternative energy construction and growth.** | **As the energy market shifts to cleaner energy sources, growth is expected in the construction of sustainable energy solutions, such as wind turbines. Growth is expected for high-capacity cranes and other excavation equipment for the construction of wind farms.** |