B | RILEY Advisory Services

JUNE 2021

Monitor

Construction & Transportation

TRANSPORTATION REBOUNDS WITH SOME BUMPS

DEMAND FOR NEW EQUIPMENT RISES

New construction equipment orders increased year-over-year, while lead times continue to lengthen

PRICES SOAR FOR USED TRUCK TRACTORS

Class 8 sales in April 2021 increase 26.1% compared to April 2020

CRANE PRODUCERS REALIZE GAINS

Companies slowly invest as supply chain and inflation troubles loom

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Overview

Since the initial impact of the COVID-19 pandemic, the construction and transportation industries are maintaining positive recovery trends and growth in most areas. However, in some cases, full potential growth is being hindered by deficiencies in supply chains, turbulent raw material pricing, shipping delays, and staffing shortages.

While the nonbuilding and nonresidential construction sectors realized upward trends on a monthly basis, construction tied to residential housing declined as lumber prices continue to surge, particularly over the past several months.

Crude oil demand and pricing have recently increased, tightening global supply and pushing up gas prices as the world continues to return to pre-pandemic activity and travel. While values for equipment in this sector have improved slightly year-over-year, there is excess equipment available in the secondary marketplace, and auctions have increased in the past several months. Consumer confidence remained flat from April to May 2021, after strong rebounds in the early months of the year; however, experts indicate that consumers may become less optimistic as inflation looms and COVID-19 government employment assistance wanes.

The market for cranes and other lift equipment has remained stable, with some recovery value increases through May 2021, as many companies are holding onto their used equipment as new equipment becomes difficult to obtain in the short term. While construction equipment manufacturers are reporting year-over-year positive gains in net sales, production backlogs are growing and shipping rates are steadily increasing.

When compared to the same periods in 2020, retail truck sales in North America have increased on a year-to-date and year-over-year basis. Similar to cranes and lift equipment, orders for trailers and new Class 8 truck tractors are beginning to slow.

Construction starts fell slightly, roughly 2%, from March to April 2021, but this can be largely attributed to delays in residential starts as other sectors such as nonresidential and highway construction trend upwards. Mining equipment demand continues to trend along with demand for mined goods, which have experienced significant growth, particularly related to steel and aluminum.

Overview

When the World Health Organization declared COVID-19 a pandemic in early 2020, countries across the globe shut down their borders and limited transportation and travel in order to contain the virus outbreak, subsequently hindering international trade and transportation. As the outbreak led to supply-chain disruptions, the logistics and transportation industries, including air, freight, and sea, were impacted in different ways. While the number of empty and skipped sailings for the maritime shipping segment peaked in May 2020, months after factories and retail outlets had to close down, the sector was not hit the hardest.

Compared to other sectors, the aviation industry was the sector that was most impacted by COVID-19, as global air traffic passenger demand dropped by almost 66% in 2020 year-over-year. Concurrently, worldwide air cargo traffic declined approximately 10%.

Compared to passenger air transportation, the impact of COVID-19 on the freight aviation industry was relatively mild due to less stringent regulatory restrictions on this sector.

However, analyst indicate that the transportation industry had trouble brewing long before COVID-19, as it took only a few weeks for the pandemic to expose underlying inefficiencies that the transportation industry has never fully addressed.

Cranes & Lift Equipment

As the world continues to reopen following the stifling impacts of the COVID-19 pandemic, the secondary marketplace for cranes and lift equipment has seen stable activity, with no signs of slowing for the remainder of the year. As commodity prices continue to increase, the pricing of new equipment, together with longer, extended lead times, have bolstered the demand, but not necessarily supply of, used equipment in the secondary marketplace. In addition, certain construction markets are continuing some of the positive trends seen in the early months of 2021. Overall, construction starts fell about 2% from March to April 2021 to an adjusted annual rate of $853.5 billion; however, both nonresidential and nonbuilding starts realized increased revenues.

The nonbuilding sector, including highways, bridges, and roads, showed a 6% increase over the same first four months of 2020, according to Dodge Data & Analytics (“Dodge”). Additionally, nonresidential building starts were up 16% in April, mostly attributed to education and recreation buildings, as well as continued gains in the warehouse category. Conversely, these gains in construction starts were impacted by the sharp decline in residential starts, falling 12% from March to April to an annual rate of $387.8 billion. According to Dodge, the increase in material pricing, coupled with shortages of supplies and skilled laborers, has led to an inevitable slump in this sector.

While reported utilization rates from many of the major rental equipment providers have begun to return to average levels due to construction seasonality and economic recovery, these companies remain in a purchasing hold pattern as they wait for the economic impacts of the COVID-19 pandemic to completely subside.

Investment in new equipment displayed order increases in the first quarter of 2021 compared to the same time period in 2020 for some crane OEMs; however, looming inflation pressure and kinks in supply chains remain troublesome factors, resulting in large backlogs.

The Manitowoc Company (“Manitowoc”) reported a first-quarter net sales increase of 7.6% to $354.3 million on a year-over-year basis and a first-quarter order increase of 26.3%. The resulting backlog totaled $662.5 million, which was an increase of 22% since December 2020. Additionally, global shipping rates are at an all-time high and are not expected to normalize in the near future, according to Bloomberg. These additional costs are typically passed on to the consumer, which results in continued price increases for new equipment.

Much of the auction activity for cranes remains solely online; however, this has not affected the number of buyers seeking equipment. Cranes in good condition, with relatively low hours, and of newer vintage, are the most sought after by potential buyers.

Trucks & Trailers

While orders for new truck tractors are slowing on a month-to-month basis, the recovery for the sector, since the previous COVID-19-stricken year, paints a different story. Additionally, while sales of new and used units are up, the uptick in activity has resulted in increased prices. According to ACT Research ("ACT"), May 2021 Class 8 truck orders dropped to 22,900 units, which represents a decrease of 32% from the prior month, but an increase of 242% from a crippling 6,687 units in May 2020. Order boards are inching closer to being filled for the year, as some units sit built but awaiting parts. In line with these factors, total trailer orders for May 2021 were 8,800 units, down 39% since the prior month, but an increase of 170% on a year-over-year basis. Again, negative impacts from supply chains, as well as staffing shortages, are hindering further growth, with orders slowing as the year goes on. Backlogs for dry vans and reefers are already slated for completion well into next year.

Retail sales of new Class 8 tractors totaled 18,187 units in May 2021, which is 98.4% higher than May 2020. In addition, year-to-date sales improved 32.2% from 69,379 units through May 2020 to 91,714 through May 2021.

Almost all major manufacturers posted substantial gains, with the exception of Western Star. According to the American Trucking Association, the seasonally adjusted For-Hire Truck Tonnage Index increased 6.9% in April 2021 on a year-over-year basis, with the U.S. positioned to have strong summer and fall seasons in the trucking, construction, manufacturing, and retail industries.

As prices and lead times for new equipment continue to increase, used Class 8 tractor prices continue an upward climb as well. The average price of a used Class 8 tractor in April rose to $57,000 per unit, an increase of 50% since April 2020 when the price averaged around $38,242 per unit.

Following March, when used Class 8 tractor sales came in at 23,800 units, April sales totaled approximately 19,312 units, which represents a 9% decrease; however, the ACT indicated that this was common for the time of year. Notably, April 2021 sales were still 26.1% higher than sales in April 2020. The average age of used Class 8 sold was six years and four months, with mileage averaging around 419,000 miles.

Construction & Mining Equipment

As of April 2021, total construction spending increased 0.2% to $1,534.2 billion compared to the prior-month estimate of $1,521.0 billion. This indicates a 9.8% year-over-year increase since April 2020. While there are notable improvements since the onset and resulting effects of the COVID-19 pandemic, increases in spending were not realized in all sectors on a month-to-month basis. The private sector realized a total 0.4% increase in spending, with residential construction displaying a 1.0% growth in April versus March. Total public construction did not fare as well since March, with an overall decrease of 0.6% to $343.5 billion in April. It should be noted, however, that the highway construction category did increase to a seasonally adjusted annual rate of $99.8 billion, up from the March estimate of $99.2 billion.

As previously noted for crane manufacturer Manitowoc, other heavy construction equipment manufacturers are reporting year-over-year increases in net sales. Terex Corporation posted an increase in net sales of almost 4.0% through the first quarter of 2021 while Caterpillar, a leading OEM in the industry, realized a sales increase of 27% through March 2021.

The markets for this type of equipment are displaying notable growth since the large declines witnessed in the first half of 2020, and this trend is anticipated to continue over the next several years. According to Business Wire, the U.S. heavy construction market is anticipated to grow at a compound annual growth rate of 6.2% to reach $52,477.6 million in 2027. As the economy continues its road to recovery and construction starts and spending continue to stabilize, equipment related to infrastructure and nonresidential construction, such as excavators, wheel loaders, bulldozers, motor graders, and other similar equipment, are expected to display steady demand levels.

With commodity demand and pricing reaching all-time highs, effects are being seen across countless industries. As these costs are often difficult to pass on to consumers, profit margins for metals are also affected. China, long known to be the world's largest consumer of metals and a holder of some of the world's largest metal reserves, has recently announced it will begin to release some of its stockpiles in order to temper further price increases and global inflation.

According to Reuters, for the first time since November 2010, the country is expected to release copper, aluminum, and zinc via public auction sometime in the near future.

Coal production is on the rise since outputs were curtailed following the COVID-19 outbreak and resulting shutdowns, as well as formerly low prices for coal's main competitor-natural gas-due to a pandemic-induced reduction in energy demand. Natural gas prices have slightly risen in recent months, making coal more competitive.

According to S&P Global, production could realize a 12% increase in 2021 to 603 million tons versus 537 million tons produced in 2020. In addition, coal exports are anticipated to increase by 23% as more countries continue to open up their economies.

Equipment demand in these sectors typically rises and falls in line with demand for global mined goods. As such, these factors should be monitored in the coming months.

Intermodal & Freight Rail

According to The Association of American Railroads ("AAR"), total U.S. weekly rail traffic for the week ended June 5, 2021 was 489,144 carloads and intermodal units, an increase of 12.9% compared with the same week in 2020.

Total carloads for the week were 227,497 carloads, up 18.1% compared with the same week in 2020, while U.S. weekly intermodal volume was 261,647 containers and trailers, up 8.7% compared to 2020.

Percentage changes for certain rail traffic categories for the week ended June 5, 2021 versus the same week in 2020 are inflated because of the widespread COVID-19-related shutdowns and subsequent large reduction in rail volumes, which impacted many economic sectors last year at this time.

Nine out of the 10 carload commodity groups posted an increase versus the same week in 2020, including coal, up 16,326 carloads to 65,101 carloads; metallic ores and metals, up 9,915 carloads to 23,332 carloads; and chemicals, up 4,711 carloads to 32,602 carloads.

One commodity group, nonmetallic minerals, posted a decrease compared with the same week in 2020, down 892 carloads to 29,220 carloads.

For the first 22 weeks of 2021, U.S. railroads reported a cumulative volume of 5,054,790 carloads, up 7.8% from the same period last year, and 6,206,969 intermodal units, up 18.7% from last year. Total combined U.S. traffic for the first 22 weeks of 2021 was 11,261, 759 carloads and intermodal units, an increase of 13.5% compared to last year.

North American rail volume for the week ended June 5, 2021, on 12 reporting U.S., Canadian, and Mexican railroads, totaled 324,161 carloads, up 15.4% compared with the same week last year, and 350,015 intermodal units, up 9.4% compared with last year. Total combined weekly rail traffic in North America was 674,176 carloads and intermodal units, up 12.2%. North American rail volume for the first 22 weeks of 2021 was 15,389,692 carloads and intermodal units, up 12% compared with 2020.

Industrial Marine

U.S. ports reported record container volumes in April 2021, as the economy continues to recover from the COVID-19 pandemic. The increase in volume is mostly attributed to imported goods being rushed to restock store shelves and warehouses as consumer purchasing continues to climb upwards. The Port of Los Angeles, the nation's busiest port, moved 946,966 20-foot-equivalent units ("TEUs") in the month versus 688,999 TEUs in April 2020, which represents an increase of 37%. According to Gene Seroka, the port's executive director, April was the busiest month in the port's 114-year history and the ninth consecutive month of year-over-year increases.

According to port officials, while Los Angeles and the adjacent Port of Long Beach are very busy, congestion is starting to ease. On May 24, 2021, approximately 22 ships were at anchor in San Pedro Bay, down from a backup of more than 40 just two months ago. The current average anchorage wait time is 5.8 days, a decrease from 7.9 days in March.

The Port of Long Beach also experienced an increase in TEUs, processing 746,188 TEUs in April 2021 versus 519,730 TEUs the prior year, which represents an increase of 47%. The Port of Oakland saw a 34.3% year-over-year increase in April, processing 217,993 containers compared with 162,167 containers the same month a year ago.

The Northwest Seaport Alliance, which operates facilities in Seattle and Tacoma Washington; Alaska, and Hawaii, processed 301,074 TEUs, a 21.5% increase from last year's 247,675 TEUs.

The East Coast is following a similar pattern of increase. The nation's third-busiest port operator, the Port Authority of New York and New Jersey, saw a 3.5% year-over-year increase, processing 712,799 containers in April 2021 versus 688,365 containers the previous year. According to port officials, this represents the ninth month in a row that cargo activity levels set a record.

Monitor Information

B. Riley Advisory Services' Construction & Transportation Monitor relates information covering most transportation sectors, including industry trends and their relation to our valuation process.

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B. Riley Advisory Services' 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. B. Riley Advisory Services' 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.

B. Riley Advisory Services' 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, B. Riley Wholesale & Industrial Solutions has liquidated and been involved in the asset disposition of many companies in the construction and transportation industry.

Meet The Team

CONSTRUCTION AND TRANSPORTATION TEAM

Michael Petruski
Managing Director
Metals & Mining
(561) 657-4896
mpetruski@brileyfin.com

APPRAISAL & VALUATION TEAM

BUSINESS DEVELOPMENT TEAM

Bill Soncini
National Marketing Manager
Managing Director
Midwest Region
(773) 495-4534
bsoncini@brileyfin.com

Ryan Mulcunry
Managing Director
Northeast Region
(617) 951-6996
rmulcunry@brileyfin.com

Stephen Shelton
Managing Director
New York Metro/Mid-Atlantic Region
(203) 524-3271
sshelton@brileyfin.com

Jennie Kim
Managing Director
Western Region
(818) 974-0602
jkim@brileyfin.com

David Seiden
Managing Director
Southeast/Southwest Region
(404) 242-0683
dseiden@brileyfin.com

Akilah Moore
Associate Business Development Officer
Midwest Region
(312) 777-7956
anmoore@brileyfin.com

OPERATIONS

Marc Musitano
Chief Operating Officer
(818) 746-9324
mmusitano@brileyfin.com

Chad P. Yutka, ASA
Senior Managing Director
National Practice Leader
(312) 909-6078
cyutka@brileyfin.com

Kristi Faherty
Managing Director
(781) 429-4060
kfaherty@briley.com

Thomas Mitchell
Project Manager
(818) 746-9356
tmitchell@brileyfin.com

Gretchen Barrett
Project Manager
Machinery & Equipment
(704) 227-7163
gbarrett@brileyfin.com

Adrine Avanesyan
Managing Writer
(818) 746-9360
aavanesyan@brileyfin.com

ASSET DISPOSITION TEAM

Adam Alexander
CEO
GA Global Partners
(818) 340-3134
aalexander@brileyfin.com

Scott Carpenter
CEO
B. Riley Retail Solutions
(818) 746-9365
scarpenter@brileyfin.com

Paul Brown
Vice President
GA Global Partners
(203) 292-8111
pbrown@gaglobl.com

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LOS ANGELES (HQ)
30870 Russell Ranch Road
2nd Floor, Suite 250
Westlake Village, CA 91362
T 818.884.3737

ATLANTA
3445 Peachtree Road
Suite 1225
Atlanta, GA 30326
T 470.346.6800

BOSTON
300 First Avenue
Suite 201
Needham, MA 02494
T 781.444.1400

CHICAGO
200 West Madison Street
Suite 2950
Chicago, IL 60606
T 312.368.8880
F 312.368.8883

DALLAS
17304 Preston Road
Suite 720
Dallas, TX 75252
T 972.996.5630

HOUSTON
4400 Post Oak Parkway
Suite 1400
Houston, TX 77027
T 713.226.4700

NEW YORK
299 Park Avenue
21st Floor
New York, NY 10171
T 212.457.3300

WEST PALM BEACH
1400 Centrepark Boulevard
Suite 860
West Palm Beach, FL 33401
T 561.657.4896

AUSTRALIA
Level 29, Chifley Tower
2 Chifley Square
Sydney, NSW 2000
Australia

GERMANY
Prinzregentenstr 18
5th Floor
80538 Munchen, Germany

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