B RILEY Advisory Services

JUNE 2022

Monitor

Construction & Transportation

DELIVERY DELAYS RAISE PRICES

EQUIPMENT PRICES RISE

Equipment costs increase as oil and gas prices cause material and transportation costs to rise

SHIPPING CONTAINERS PILE UP

Port congestion, rerouted trade routes, and mismatched bookings cause shipping containers to pile up on both coasts

CONSTRUCTION STARTS RISE

Construction starts rose in April 2022, driven by increases in residential and nonresidential starts

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MONITOR CONSTRUCTION & TRANSPORTATION
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Overview

Ongoing supply chain issues, longer lead times, and labor and material shortages continue to plague the transportation and construction industries.

Increased manufacturing needs and higher disposable income led to increases in the value of construction starts, as both the nonresidential and residential construction sectors experienced increases in April 2022. Crude oil prices have skyrocketed in recent months following Russia's invasion of Ukraine, causing shipping rates and material costs to rise. Consumer confidence fell slightly in May to 106.4 as interest rates increased and inflation remains on the forefront of consumers' minds.

Construction starts rose 3% in April, driven by increases in nonresidential starts, particularly in the manufacturing sector, and increased residential starts. Although it is expected for construction starts to continue increasing in the months to come, the potential threat of an impending recession may impede this. Demand for mining equipment remains steady as demand for mined materials remains healthy.

Despite rising coal prices and production, coal generation is expected to decrease moving forward. Approximately one-quarter of the U.S. coal fleet has announced plans to retire in the next decade and some analysts predict only 10% of the domestic coal fleet could remain by 2030 as coal generation and investors' appetites for coal continue to fall.

In April, average retail prices for used Class 8 trucks reached $101,192, a 75% increase compared to $57,988 a year earlier but below the March 2022 peak of $101,716. The average price for a three-year old Class 8 truck was $151,811 compared to $90,874 a year earlier as used truck demand remains strong. According to Rusty Rush, the chief exectutive officer of Rush Enterprises, "The values begin to retact slightly from the historically high levels we experienced in 2021."

Despite ending 2021 on a positive note, intermodal volume and output have experienced a mixed bag thus far in 2022, reflecting the general uncertainty surrounding the overall economy. Key rail lines have experienced decreased train speed and are spending more time at terminals, contributing to general port congestion.

Vessel delays have contributed to an imbalance of available, empty containers to transport goods to and from Europe to the U.S., causing mismatched bookings and ships running below full capacity, further contributing to port congestion, particularly on the West Coast. Upcoming negotiations between union laborers and port management on the West Coast may further worsen current conditions should an agreement not be reached in a timely manner. Port congestion, long shipping times, and container chassis shortages are expected to persist for many months or even years to come.

Cranes & Lift Equipment

The crane and lift equipment market continues to benefit from rising nonresidential construction, particulalry in the education and healthcare sectors. Total construction starts rose 3% in April to a seasonally adjusted rate of $945.8 billion per Dodge Data & Analytics. Nonresidential and building starts rose 6% month-over-month, driven by a 16% increase in manufacturing starts. Nonbuilding starts fell 4% month-over-month driven by a decline in starts for highway and bridge projects of 14%. Residential starts rose 4% month-over-month to a seasonally adjusted rate of $462.9 billion, with single family and multifamily starts rising 1% and 13% month-over-month, respectively.

While construction spending and starts are up, there is a shortage of skilled construction workers. The number of entry-level construction workers has risen by 72.8% since 2011, while the number of total construction workers is only up 24.7%. The number of workers aged 25 to 54 has fallen 8% over the past decade, while the amount of older workers exiting the industry has skyrocketed. Per the Centers for Disease Control and Prevention, the average retirement age of a construction worker is 61, and more than one in five workers are currently older than 55.

Higher demand and increased utilization rates have benefitted equipment rental providers thus far in 2022 by allowing for pricing flexibility, while original equipment manufacturers ("OEMs") have had to increase equipment prices to offset inflation and higher material costs. Backlogs also remain a concern for many manufacturers. The Manitowoc Company ("Manitowoc") reported first quarter net sales of $459.0 million, a 29.6% year-over-year increase, which was lower than initial projections due to the ongoing supply chain issues. Manitowoc's backlog rose 56.0% year-over-year to $1,033. million as of March 31, 2022.

The recently passed Infrastructure Investment and Jobs Act is expected to keep construction levels high, keeping demand up for cranes and lift equipment in the near future despite an anticipated economic slowdown.

Trucks & Trailers

Current order backlogs for 2022 are relatively full and most OEMs are hesitant to open order boards for 2023, as they are currently unable to guarantee pricing. In April 2022, orders of Class 8 trucks reached 15,800 units, less than half of the 33,353 units ordered in April 2021 per ACT Research ("ACT"). Class 8 truck orders were consistently near 21,000 units for the first three months of 2022 before dropping in April. Trailer orders reached 19,614 units in April 2022, a 48% month-over-month decrease but a 23% year-over-year increase per ACT. Dry van orders fell 64% month-over-month, driving the overall decline. Truck production continues to face significant impacts from supply chain disruptions, component and labor shortages, and higher material costs, all of which are pushing truck and trailer prices higher.

Retail sales of new Class 8 trucks reached 19,052 units in April 2022, a 1.3% decrease from April 2021, and below March 2022 sales of 20,359 units. Year-to-date sales fell 5.9% to 69,184 units in April versus 73,534 units for the same period in the prior year. Sales of used Class 8 trucks reached 22,100 units in April 2022 a slight increase from April 2021 but a decrease from March 2022 sales of 25,200 units.

Industry experts attribute the decline in sales to delivery delays, as truck inventories are currently at their highest levels since October 2020 and have risen by 10,000 units since the beginning of 2022. The seasonally adjusted For-Hire Truck Tonnage Index fell 2% month-over-month in April 2022 but rose 1.8% year-over-year, per the American Trucking Association. Freight growth is expected to be slower compared to 2021, while contract freight is anticipated to outperform the spot market.

As lead times remain elevated and semiconductor shortages persist, Class 8 retail prices have risen, with average prices increasing 75% year-over-year to $101,192 in April 2022. Prices declined from their March 2022 peak, as inflationary pressures have slowed consumer spending, subsequently slowing freight. Sales of used Class 8 tractors reached 22,100 units in April 2022 versus 21,700 units sold in April 2021, and below March sales levels of 25,200 units.

Auction values for used sleeper trucks rose 65.9% year-over-year in March 2022. As truck production remains low, the value of sleeper trucks made after 2017 has posted an increase of 8% since January as reported by APNews.

Construction & Mining Equipment

As of April 2022, total construction spending rose 0.2% from March to an estimated seasonally adjusted annual rate of $1,744.8 billion, and 12.3% above April 2021. Spending in the private sector rose 0.5% to a seasonally adjusted rate of $1,394.7 billion, while residential construction rose 1.3% compared to the prior month. However, nonresidential construction spending fell 0.2% in April versus March. Total public construction also fell, declining 0.7% compared to March with educational and highway construction falling 0.7% and 0.1% month-over-month, respectively.

Equipment manufacturers have faced challenges similar to other industries, including delivery delays to customers. According to a survey conducted by Equipment Watch, 56% of respondents noticed delays in the deliveries of new equipment, 53% noticed a lack of new equipment available for purchase, and 40% noticed a lack of available used equipment for purchase. Nonetheless, anticipated strong construction rates in 2022 has caused demand for heavy-duty construction equipment to remain strong. The Terex Corporation reported sales of $1.0 billion in the first quarter of 2022, a 16% year-over-year increase, with a record backlog of $3.5 billion. Caterpillar, Inc. announced similar first quarter results, with sales and revenue reaching $13.6 billion, a 14% increase compared to the first quarter of 2021.

Skyrocketing gas and diesel prices following Russia's invasion of Ukraine as well as higher shipping costs have exacerbated pricing and supply chain pressure on construction materials. Per a White House memo released in May 2022, all projects funded by the Infrastructure Investment and Jobs Act are required to use domestically made iron and steel only in an effort to enforce the Buy America procurement preferences by all federal agencies. However, current supply chain shortages and higher material costs are prompting construction firms to avoid bidding on new projects.

According to SP Global, U.S. coal production is expected to increase 3% to 598.3 million tons in 2022 despite declines in thermal coal-fired generation as domestic utility providers seek to replenish depleted inventories. Coal exports are expected to reach 85.7 million tons in 2022. Global coal prices may exceed $500 per ton in 2022 as gas prices continue rising and the Russia-Ukraine conflict continues.

Arch Resources Inc. ("Arch"), one of the largest domestic miners for thermal and metallurgical coal, has been setting aside $100 million of its profits since late 2021 to cover reclamation obligations at two of its mines in Wyoming's Powder River Basin, with plans to have $130 million set aside by the third quarter of 2022, enough to cover its obligations at a third mine. Other coal companies have adopted similar conservative approaches to spending in recent years but not to the same extent as Arch. Approximately a quarter of the U.S. coal fleet has announced plans to retire within the next decade and some analysts predict less than 10% of the domestic coal fleet could remain by 2023 as thermal coal generational and investors' appetites for coal continue to fall.

Intermodal & Freight Rail

According to the Association of American Railroads ("AAR"), North American rail volume rose 4.5% in 2021 versus 2020 to 35,585,222 carloads and intermodal units. The U.S., Canada, and Mexico all reported year-over-year increases of 5.8%, 0.6%, and 4.7%, respectively, in 2021.

North American rail volume for the first 19 weeks of 2022 totaled 12,770,815 carloads and intermodal units, a 3.9% decrease compared to the same period in 2021. While intermodal movements experienced weekly increases throughout March and April, the increase only reflects trains on the track and not the delays in containers arriving to their destinations. Key rail lines have experienced decreased train speed and trains are spending more time delayed at terminals, contributing to the significant port congestion at the ports of Los Angeles and Long Beach.

U.S. rail traffic reached 9,370,059 carloads and intermodal units for the week ended May 14, 2022, a 3.5% decrease compared to the same week in 2021. U.S. railroads handled 230,128 carloads for the week, a 5.2% decline, while trailers and containers fell 5.5% to 274,992 units. For the first 19 weeks of 2022, overall U.S. rail traffic declined 3.5% compared to the same period in 2021, including a decline of 6.9% in intermodal traffic, while carloads increased 0.6%.

Seven out of 10 commodity groups posted declines for the week ended May 14, 2022 per the AAR. Petroleum and petroleum products led the decline, falling 19.0% compared to the same week in 2021 to 9,103 carloads, followed by a 14.0% decrease in grains to 21,910 carloads. Metallic ores and metals and forest products also experienced declines of 9.7% and 5.0%, respectively. Coal also fell 4,317 carloads to 64,015 for the week. Farm products, excluding grains and food, increased 6.5% to 16,257 carloads, while motor vehicles and parts rose 5.0% to 13,097 carloads and nonmetallic minerals increased 4.9% to 33,344 carloads.

North American rail volume for the week ended May 14, 2022, on 12 reporting U.S., Canadian, and Mexican railways, fell 4.2% to 325,431 carloads and 367,153 intermodal units compared to the same week in 2021; total combined North American weekly rail traffic fell 4.2% to 692,584 carloads and intermodal units.

Industrial Marine

Ongoing global supply chain challenges have been further exacerbated by the most recent COVID-19 lockdown in China and the ongoing Russia-Ukraine conflict. Although vessel delays have begun to decline in recent months, the average global delay was at 7.26 days in March, a figure that rarely exceeds 4.5 days.

Port congestion continues to remain a challenge, as approximately one-fifth of the globe's shipping container fleet is stuck at major ports. Port congestion at West Coast ports, particularly at the Port of Oakland and the Port of Los Angeles, have caused importers to reroute shipments to the East Coast. According to DHL, a leader in shipping logistics, Asia capacity at East Coast ports has risen 28.1% in 2022 versus 2021 compared to West Coast capacity rising 20.5% over 2021.

On the international side, the Russia-Ukraine conflict has resulted in several major shipping lines suspending transport into the Baltic and Black Seas. Several key European ports have also banned Russian-flagged vessels, which rerouted the flow and increasing container ship activity at European ports. Vessel delays have also resulted in an imbalance of available, empty containers to take European-made goods to the U.S. East Coast, resulting in mismatched bookings and more ships running below full capacity.

Shipping containers piling up on the East and West Coasts have driven container prices downward, particularly secondhand containers, in recent months, as trade disruptions over the past two years have made it made it difficult to repatriate empty containers back to Asia. Upcoming contract negotiations between laborers in the International Longshore and Warehouse Union and management members within the Pacific Maritime Association have made trade groups nervous as these negotiations have historically resulted in work stoppages. Should an agreement not be made before the contract expires on June 30, 2022, current West Coast port conditions could worsen.

Although the amount of container ships awaiting berths have declined from the peak experienced in February 2022, levels still remain at historical highs for many ports. The amount of imported containers rose significantly in March for most U.S. ports. The Los Angeles, Long Beach, and New York/New Jersey ports, collectively representing the top-three container volume to the U.S., imported 12% (260,000) more containers in March 2022 versus February, marking the all-time highest month for the Port of Authority of New York and New Jersey. According to the U.S. Department of Transportation, U.S. ports have imported approximately 0.5% more in the first quarter of 2022 compared to the last quarter of 2021.

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.

B. Riley Advisory Services strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole. B. Riley Advisory Services 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 B. Riley Advisory Services Business Development Officer.

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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:

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- 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.

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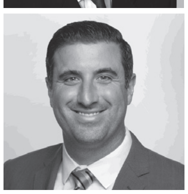

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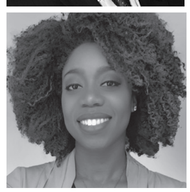

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B. Riley recently announced the acquisition of FocalPoint Securities, LLC, a leading middle market M&A advisory investment bank. The combination of B. Riley and FocalPoint significantly enhances B. Riley's debt capital markets and financial restructuring capabilities.

100 FASTEST GROWING COMPANIES 2021 FORTUNE

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B. Riley Financial ranked No. 2 on FORTUNE 100 Fastest Growing Companies 2021 list based on revenue growth rate, EPS growth rate, and three-year annualized total return for the period ended June 30, 2021. Fortune. © 2021 Fortune Media IP Limited All rights reserved.

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