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CONEXPO
CON / AGG

2023 Observations



The Construction & Infrastructure Markets are Outperforming

TM Capital's Equipment Rental & Dealer team attended CONEXPO-CON/AGG 2023 – with over 2,400 exhibitors and more than 139,000 attendees from 133 countries, CONEXPO is now the largest convention in the U.S. Following more than 30 meetings with business leaders and over 100 cumulative miles covered walking the show, here are our top takeaways.



Despite headwinds currently creating challenges across the broader macroeconomic markets, businesses tied to the construction and infrastructure industries are performing well and many industry leaders expect that trend to continue into the foreseeable future. Prevalent across TM Capital's conversations with leading, global industrial conglomerates, equipment rental companies, crane rental companies, equipment dealers and accessory/parts manufacturers and distributors, it was nearly unanimous that Q1 2023 will be a record or near-record quarter. Additionally, this growth is expected to continue, and potentially accelerate, as demand for both equipment and services remains robust and any impact from the Bipartisan Infrastructure Law has yet to be felt.

As a result, acquisition and investment interest in these sectors remains strong. Supported by the strength of the underlying market, large equipment rental players (United Rentals, Sunbelt, HERC, H&E) continue to actively seek opportunities to add market density in target regions and acquire specialty product / service providers. We are also seeing increased interest from Private Equity and Family Office investors, seeking both majority (control) and minority investments.

Autonomous & Remote-Controlled Equipment



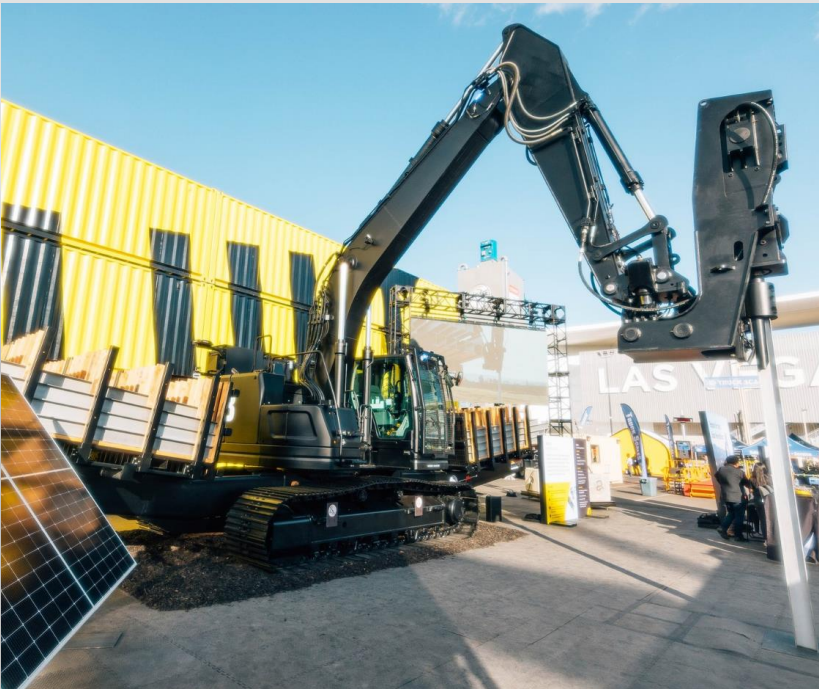
One of the strongest trends across the show is continued digital transformation as OEMs lean further into remote controlled and fully autonomous vehicles – a targeted answer to the sustained challenge facing the construction industry of labor availability.

Although introduced nearly a decade ago, as of November 2022 Cat® Command equipped autonomous vehicles hauled over 5.5 billion tons of material, including an expected 1.4 billion tons in 2022, with zero loss-time injuries.

DEVELON (formerly known as Doosan Construction Equipment) showcased its Concept-X2 equipment (DD100-CX dozer and DX225-CX crawler excavator) – an autonomous platform built to perform tasks in areas that are not accessible or that have higher-safety risks.

Honda debuted the latest prototype of its Autonomous Work Vehicle (AWV) designed to support jobsite-related activities, delivering loads of up to 2,000 pounds to precise points along a set route.

Another star of the show was Built Robotics' fully autonomous solar piling system, the RPD 35, designed to install utility-scale solar foundations faster than traditional, manual methods. The RPD 35 enables a two-person crew to install more than 3,000 pilings per day, improving efficiency and reducing worker injuries. The company expects the first RPD 35 to deploy in Q4 2023.



Electric & Other Sustainable Technology for Heavy-Duty Equipment



Another theme was the prevalence of electric, hybrid, fuel-cell and hydrogen-powered equipment on display. It is expected that over time most of the construction industry will switch to either fully-electric, battery-operated or hybrid technology, reducing reliance on fossil fuels and decreasing the number of wear parts and maintenance costs.

While electrification within the construction industry is not a new trend, with existing applications for lighter-duty equipment (scissor lifts, fork trucks, smaller excavators, etc.), this year saw electrification (or other sustainable technology) for heavier-duty applications. Volvo Construction Equipment, committed to achieve net-zero value chain emissions by 2040, showcased its leading lineup of electric construction equipment, as well as the prototype for the world's first hydrogen fuel cell powered articulated hauler, the Volvo HX04.

Caterpillar, John Deere, Bobcat, DEVELON and Case all had several electric or hybrid vehicles on display and JCB debuted a hydrogen internal combustion engine – a solution geared for heavier-duty applications than a hydrogen fuel cell may be capable of supporting.

On the crane-side of the show, Tadano unveiled the world's first electric rough terrain crane, the GR-1000XLL EVOLT, a 100-ton crane which will be able to travel to work sites and perform all lifting operations exclusively with energy supplied by its batteries, making 100% zero-emission operation possible.



Proliferation of Digital Technology to Increase Jobsite Safety



Digital technology is also being used to improve jobsite safety. Nearly all new equipment from the major OEMs are outfitted with 360-degree cameras and safety sensors, enabling operators to see all angles and ensure safe movement in confined working areas.

John Deere showcased its latest technologies, including Smartdetect™, utilizing high-resolution cameras, sensors and machine learning to help give operators greater awareness of their surroundings.

DEVELON debuted a “Transparent Bucket” on its 7 Series wheel loader, enabling operators to eliminate the large blind spot created by a full, raised bucket. By combining images from a camera mounted above the cab and a camera below the cab, the operator can see – via an in-cab screen – objects or people that would otherwise be obstructed from view.



Attachments “Nuclear Arms Race”



Everywhere we walked, we could stop and survey a multitude of “next generation” attachments. Whether to further expand the functionality of core construction equipment; improve safety; introduce technology; replace “labor” with “automation;” or simply to increase activity speed and precision, manufacturers of attachments continue to push the envelope.

As an example, Caterpillar expanded its Smart Grader Blades line, enabling owners of previous models to equip their machinery with smart blades. These smart blades are compatible with software enabling the system to control the blade relative to a design that is loaded into the grade control system, helping to reduce re-work, labor and materials used on the jobsite.

For equipment dealers and rental companies, this ever-expanding selection of attachments provides an increased opportunity to better address end-customer needs. Further, for dealers, this expanded portfolio of attachments, notably technologically-advanced versions, likely increases aftermarket parts & service requirements. This may provide dealers with opportunities to strengthen customer relationships through product knowledge and customer service while increasing revenue/profit opportunities.

Supply Chain & Labor Issues



While a topic in essentially every conversation we had, the energy surrounding supply chain issues and the associated impacts seems reduced.

OEMs have now had time to reconstruct and recalibrate supply chains, with an easing of impact either already being felt, or expected soon. These are often complex, global supply chains spanning technology, other sophisticated components and, of course, the core “heavy metal,” yet many conversations included observations of easing in the second half of this year, or early 2024.

Supply chain issues have highlighted some of the differences associated with “scale.” Larger, more financially strong dealers and rental companies seem to have been able to place orders earlier and are receiving allocations closer to their initial requests. Thus, while limiting, supply chain issues seem to have been “less limiting” to larger players.

In parallel, since the early days of COVID there has been an imbalance in the supply and demand for service technicians, which has hampered ability of dealers and rental companies to maximize revenue potential or to meet external / internal service demands on either a timeliness or cost-effective basis, or both. Recently we have heard that some of those open spots have been being filled.

TM Capital's Equipment Rental & Dealer Team

Over the last 15 years, TM Capital has developed a market-leading Equipment Rental & Dealer sector practice, advising a broad range of privately-owned and financial-backed clients. Since the beginning of 2021, TM Capital has completed 11 M&A transactions in the industry, totaling over \$2 billion in aggregate enterprise value – the firm's significant track record and wide-ranging expertise has enabled us to educate market participants on the attractiveness of the industry and meaningfully expand financial investor interest in the sector.


TM Capital's Equipment Rental & Dealer Investment Banking Team:

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The undersigned served as financial advisor to Argosy Private Equity in connection with this transaction.

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