

Used Heavy Equipment

Equipment Well Running Dry

As the used equipment market continued to tighten, prices have continued to increase and more equipment has been flowing through dealers, leaving auction houses with less inventory.

- Used supply tightens for fifth consecutive quarter; used inventories during past 90 days insufficient for 15 of 16 sources (vs. 13 of 15 in July); parts shortages emerging
- Used pricing up 12%–15% yy during past 90 days, exceeding July expectations as prolonged new equipment shortage drives even more buyers to used market
- Dealers gained share (reported by 8 of 16 sources) as auctioneers lost (6 of 16), benefiting from proximity to rental, lease returns as less equipment flows through auctions; dealer sales up 21%–24% yy (similar to July)
- Area to Watch: RBA auction volumes mostly stable but equipment quality deteriorating because of tight supply; similar dynamics anticipated in 2022

BY T. JARRETT HARRIS

SOURCES & BACKGROUND

16 sources, comprising used construction/mining equipment specialists, representing more than \$923 million in annual sales

REPEAT SOURCES 11 from OTR Global's July report

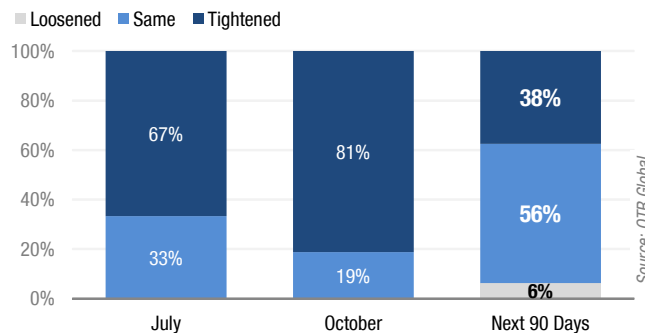
INTERVIEWS October 19-27

AVERAGES Weighted according to each source's annual used equipment sales volumes in dollars

KEY DATA

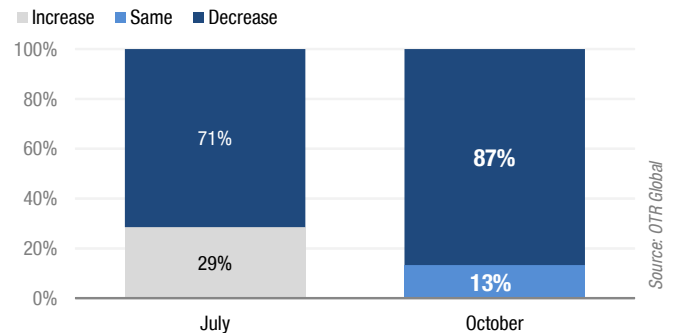
Supply of Used Construction Equipment QQ

(percentage of responding sources)



2021 OEM Finance Sales Through Auction YY

(percentage of responding sources)



"I think dealers right now have several advantages. Every equipment dealer is in the rental business, so they have access to those machines. There are also machines on leases; if the customer doesn't want to pursue the option for the lease, the dealer can buy it."

Used Equipment Manager, leading Deere dealership

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New Machine Drought Amplifies Used Demand

Distributors of used **Caterpillar Inc.**, **Komatsu Ltd.** (6301 JP) and **Deere & Co.** equipment all said demand has remained at elevated levels or accelerated even further during the past 90 days qq.

“Demand is the same qq. ... It’s off the charts good,” one used equipment manager said. As in July, sources said a wide variety of project types have been driving demand, led by highway/bridge work, followed by residential construction. Several sources said all end markets are strong and could not identify any as the main driver. “All end markets are driving sales. It’s everything,” one source said. Another said, “Everything is up: residential construction, commercial building, warehouse, even coal.” Sources said deepening new equipment shortages are pushing even more customers to the used market. “Increased demand is because there’s nothing there on the new side. That’s the problem right now. If we list it, we sell it. I’ve never found it so easy to sell,” one source said. Another said, “Even our junk is selling.”

Quotes

“Demand is about the same. It’s hard to judge because supply is so bad. You don’t really know if people could get more if they’d want it, or if we could deliver would they slow down?”

“Demand is incredibly strong. Prices are up, and people are still buying. We trade stuff within a day or two of receiving it.”

“Residential is still moving. It seemed like it paused for a little, but that hasn’t slacked off.”

“Our top 50 customers have work through next year — through the late part of the year.”

“One of our better contractors has had a few projects pushed back because of costs. Developers are not saying no or taking them off the books, but maybe pushing those back six months or so because of costs and delays.”

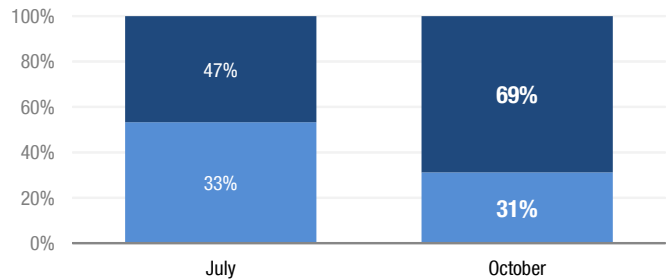
Further Tightening Counters Expectations

Thirteen of 16 sources said used equipment availability tightened during the past 90 days and only three said it remained the same, contrary to expectations in the July report, in which eight of 14 sources expected availability would stabilize and only five expected it to tighten further. This marks the fifth consecutive quarter in which availability has tightened sequentially. In addition, 15 of 16 sources reported insufficient inventory levels during the past 90 days. “Ninety days ago the expectation was when we got here we’d see the light at the end of the tunnel,” one source said. “But the picture is not becoming any clearer.” Several sources said as new machine deliveries have trailed expectations, rental fleet rollouts — historically a significant source of used iron — have grown sparser. “We are starting to pump the brakes on sales out of the rental fleet. ... We’ve been selling too much,” one source said. Others said lease returns have also

Used Equipment Demand QQ

(percentage of responding sources)

■ Stronger ■ Unchanged ■ Weaker

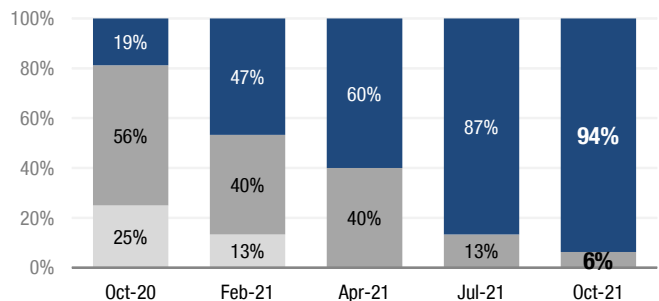


Source: OTR Global

Used Equipment Inventory

(percentage of responding sources)

■ Excessive ■ Adequate ■ Insufficient



Source: OTR Global

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dried up, as more customers opt to hold on to equipment or convert leases to purchases. “There’s usually a steady flow of lease returns — that’s not there this year,” one source said. “We’re seeing customers keep their leases, going on month to month leases after.” Another said, “I’m 60% of where I’d want to be.”

Several sources said shortages have grown beyond new and used equipment and are now affecting replacement parts availability as well, creating a new set of headaches for contractors and dealers. “We’ve graduated past just machine shortages,” one source said. “We now have machines down all over the territory waiting on parts.” With shortages spreading to the parts arena, sources are not optimistic about improving machine supply in the next 90 days. “I don’t see it improving. People are realizing they won’t be able to get stuff,” one source said.

Quotes

“If you’d asked me last spring, I’d have said availability would’ve improved. I don’t see that to be the case.

“It’s still pathetic. The used side has been really tough as has the new side. It has not gotten any better yet.”

“Historically, we put new in rental then run it 36 or 48 months, but we can’t pull it out. We’re running equipment longer than we ever have.”

“One of our rental fleets put in a forecast for next year. CAT said we can have half. The problem with that is now — that correlates to what we’re willing to sell.”

“We’re having a real lack of parts availability. CAT could always get parts, but it’s finally gotten us. I can’t even get CAT paint — a five-gallon bucket or 55-gallon. It’s killing sections of the business that people don’t realize.”

“Availability is getting worse. Honestly, I have no idea when it will get better. Demand is going to have to come down.”

Rocketing Prices Go Higher

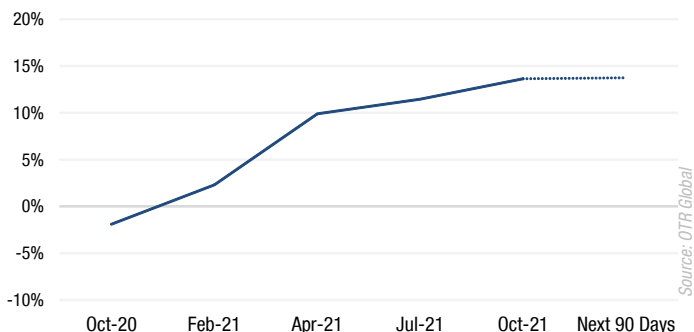
The sky-high prices sources reported in July took another step up during the past 90 days. Used prices increased 12%–15% yy, outpacing expectations. “We can’t put a number on too high and not still have someone interested,” one source said. Four of 16 sources reported prices up 20% or more yy. “I bet we are up 20%. I would have never expected double-digit gains, much less what we have now.” Several said soaring prices are so extreme that current valuation tools are proving useless. “A machine [Ritchie Bros. Auctioneers Inc.’s] Rouse will tell you is worth \$100K will sell for \$130K,” one source said. “In a flat market some of those tools are fairly accurate, but in a drastically upward market, prices are harder to pin down.” Sources expect the market to hold on to current gains during the next 90 days. “If you have it and it’s a nice piece, you can get whatever you want,” one said.

Quotes

“We’re getting 5%–10% more, easy. You can maybe get 15%. We’re trying our best not to gouge our customers.”

Used Equipment Prices YY

(weighted average)



Source: OTR Global

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"In certain things, pricing is up 50%, other things 15%. A year ago, there was a glut of 70,000 pound excavators, and they were 60 cents on the dollar to what they are today.

"No one is selling anything on the cheap right now."

"It's going to go up just because I don't see this supply issue going away."

Dealers' Sales Remain Strong

With more buyers flocking to used machines, dealers reported a 21%–24% yy increase in sales, similar to July levels. "We'll break records this year in used equipment, and at really high margins," one source said. But growth rates are expected to moderate, particularly as dealerships pare back sales out of rental fleets. "This past quarter, we've basically taken our rental fleet off the market," one source said. Another said, "We quit selling our rental fleet. We can't replace it."

Quotes

"Sales just keep going up. We're lucky enough that we have had enough machines to move."

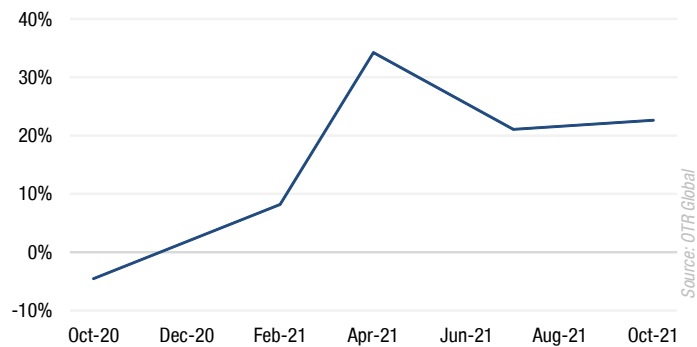
"Year-to-date, I'm 65% ahead of last year, and we killed it last year. There is no explanation for what is going on right now."

"We are up at least 25% over last year. We are north of 2019 numbers, but business is going to go down because of sheer availability."

"We're turning down deals on lower hour gear so we can maintain the rental fleet."

Dealer Sales YY

(weighted average)



Rental, Lease Access Boost Dealer Share

Eight of 16 sources said dealers gained share from auctioneers in used equipment remarketing during the past 90 days (up from two in July) because of their proximity to rental and lease returns and as less equipment flows through auctions, and six of 16 said auctioneers lost (up from one in July). "I think dealers right now have several advantages. Every equipment dealer is in the rental business, so they have access to those machines," one source said. "There are also machines on leases; if the customer doesn't want to pursue the option for the lease the dealer can buy it."

Sources said dealers have the first chance at buying the limited number of lease returns that are not purchased by end users, and several sources reported a significant uptick in such purchases from OEM finance branches. "We buy every lease return that comes back. Period. It doesn't matter what it is," one source said. Another said, "The dealerships are gobbling up lease returns for rentals and sales, and I don't think there are as many lease returns." Some sources said competition among dealers for lease returns has gotten so great, finance branches are running internal auctions before even listing available machines to a wider audience. "Usually, they have a weekly list, but now every time a newer machine comes onto the list it's for dealerships to bid on," one source said. "Now they're going to auction format for the first 48 hours, and then if it doesn't sell it goes on the list." With dealers taking the majority of lease returns, sources expect the volume of equipment OEM finance arms sell through Ritchie Bros.' auction platforms to decline during 2021 yy.

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Quotes

“I think dealers are favored. Auctions are having a very difficult time buying machines. I think CAT dealers have gotten very aggressive buying from customers — offering higher trade-ins.”

“I think dealers have to be gaining. We get first option at the finance companies. We’re first on the food chain. Everyone else is down the line.”

“Even if you are a dealer whose liquidation strategy is auction, rental managers and CFOs, they won’t let you sell it if you can’t replace it.”

“I did a lot more lot clearing with [Ritchie] last year. This year, I’m selling everything before I can get it to the auction point. I’m putting stuff in for December — if it’s still left when we get to December. I’d bet half of it will sell retail before I get there.”

“Cat Financial is really pushing dealers, making changes to make it a favorable move for dealers to buy their iron. I think they realize the auction channel isn’t the best way.”

“We pick through all of [Deere Finance lease returns] and buy what we like. Right now we like all of it.”

Ritchie's Diversification Continues

Dealers said the volume (in units) of equipment at Ritchie Bros. auctions has been flat or down during the past 90 days. More than the quantity of iron, sources said the quality of iron at auctions continues to deteriorate as used supply dries up and dealers increasingly have the first shot at the most desirable machines. “I think the amount of late-model, low-hour quality iron [at auction] has decreased, but overall units not so much. They’ve had some strong auctions, but it’s been kind of tired iron,” one source said. Another said, “The quality of equipment has gotten worse, but I haven’t noticed the volume changing. Unless you’re going out of business, I don’t know why you’d sell any late and low right now because you’re not going to replace it.”

Several sources said Ritchie has grown more aggressive pursuing consignors as a result. “I have never really experienced this much but even the big auction companies are really checking in daily,” one source said. Others said Ritchie has been focusing less on its core auction business and more on the transformation into a digital solutions provider. Sources cited the acquisition of SmartEquip as the most recent example. “I think Ritchie’s whole focus is on the add-ons to the auction business — how they become NADA of the equipment world,” one source said. “I don’t see them getting as aggressive as they used to be. If you have a conversation [with them] it’s about using their other platforms.”

Quotes

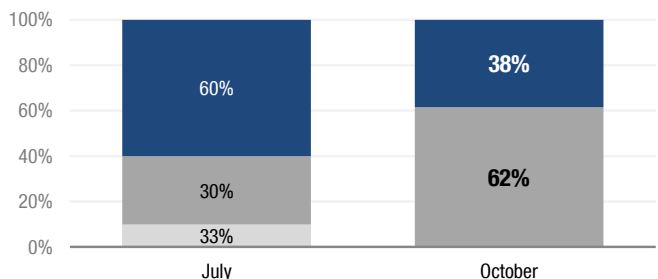
“They may have almost managed to maintain the number of units, but the quality is way down.”

“Some way, somehow, Ritchie is getting their hands on gear. It’s mostly from guys that are getting out, selling out, closing. It’s hard for dealers to handle 200 or 300 machine deals. I think Ritchie is holding steady.”

RBA Auction Volumes QQ

(percentage of responding sources)

■ Increased ■ Same ■ Decreased



Source: OTR Global

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“I’ve talked to my guy more in the last quarter. He’s staying in contact and letting me know he’s there — more contact than usual.”

“They keep trying to get into fleet management, but it’s not an easy door to open, because we don’t need them.”

“They’re expanding their footprint. They’ve made a few big purchases, like Euro Auction.”

More of the Same Expected in 2022

Sources expect similar market conditions to persist in 2022 — strong demand, short supply and intense competition for any available equipment — keeping the volume of equipment sold through both dealers and OEM finance branches at low levels, if not declining further. “Our auction volumes will be down another 25% next year if this market holds, which I think it will,” one source said. Another said, “[OEM finance arm iron to auctions] will continue to decrease. At the beginning of this year, they sold a lot at auction. The only thing they’re selling at auction now the distributors aren’t buying because it’s too rough.”

Quotes

“It depends on how much I trade. That’s what [Ritchie] gets from me. If I don’t get any new to trade, they won’t get much.”

“CAT is able to sell a lot of this through the dealers.”

“I think it will be awhile before deliveries from the manufacturers increase enough to affect that. I think it will be spotty next year.”

“[OEM finance auction volumes] won’t go down more, but it will stay down at almost nothing.”

Contributors: Alex Georgalas and Denise Jordan

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ON THE IMPACT OF ONLINE VS. LIVE AUCTIONS

“I don’t think it’s had any impact whatsoever. I think the only impact it has had is some of their internal people that were hard-core ramp guys — that’s been a challenge for them.”

“I think it’s going to have a negative impact on the industry. I don’t go to the auction just to buy equipment. I go to see my customers. It’s a business social event for a lot of people. I might buy while I’m there. It’s fun to go look at iron and talk to people. Ritchie will say it doesn’t affect them. I don’t know if it does.”

“My opinion is that it has to have an impact, but everyone keeps saying no. The auction guys say it’s good. I think it has to have a negative impact. That’s not what everyone is telling me.”

“They’ll never go back to completely live, at least that’s what I think. They might do the Florida auction, but in their smaller locations, they’ll never go back. They’re having success with doing it online with less cost.”

ON THE DEERE STRIKE

“I don’t know that the strike has as big an effect as you would think. I think what was holding them back was their supply of parts into the factories.”

“Deere is on strike. It took what was already a bad situation and made it pretty much awful.”

“If this UAW strike lasts 30 days it’s no harm, no foul. Deere let them keep all their health insurance. They didn’t do that because they are good guys, but they will need them back to work as soon as possible. If it goes four to six months there will be a lot of problems.”

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1. Did demand for used equipment during the past 90 days get stronger, remain the same or weaken qq?

Stronger:	5
Unchanged:	11
Weaker:	-
OTR Comparative Index:	31
July Index:	53
October 2020 index:	31

Note: The OTR Comparative Index is a quantitative representation of qualitative responses. The Index is calculated by subtracting the "worse" from the "better" responses, dividing by the total responses and multiplying by 100. An Index below zero indicates a negative trend; above zero indicates a positive trend.

2. What end markets are driving sales of used equipment?

Highway/bridge:	11
Residential construction:	10
Commercial construction:	5
General construction:	2
Warehouse/distribution:	2
Agriculture:	1
Data centers:	1
Energy:	1
Landscaping/small projects:	1
Manufacturing:	1
Mining:	1
Public sector/infrastructure:	1
Quarries/aggregates:	1

Note: Some sources gave more than one answer while others did not respond.

3a. Did the availability of used equipment loosen, remain the same or tighten during the past 90 days sequentially?

Loosened:	-
Remained the same:	3
Tightened:	13
OTR Comparative Index:	-81
July Index:	-67

3b. Is your used equipment inventory excessive, adequate or insufficient relative to current demand?

Excessive:	-
Adequate:	1
Insufficient:	15

4. Do you expect the availability of used equipment to loosen, remain the same or tighten during the next 90 days?

Loosen:	1
Remain the same:	9
Tighten:	6

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5. Did dealers' dollar sales increase, remain the same or decrease during the past 90 days yy?

Up 71%–80%:	1
Up 61%–70%:	1
Up 21%–25%:	2
Up 16%–20%:	1
Up 11%–15%:	2
Up 1%–5%:	1
Up:	3
Flat:	2
Down 1%–5%:	1
Down 6%–10%:	1
No response:	1
Weighted average:	Up 21%–24%
July average:	Up 20%–23%

6a. Did used equipment prices increase, remain the same or decrease during the past 90 days yy?

Up 21%–25%:	1
Up 16%–20%:	3
Up 11%–15%:	3
Up 6%–10%:	6
Up:	3
Flat:	-
Down:	-
Weighted average:	Up 12%–15%
July average:	Up 10%–13%
October 2020 average:	Flat–down 3%

6b. Do you expect used equipment prices to increase, remain the same or decrease during the next 90 days yy?

Up 21%–25%:	2
Up 16%–20%:	2
Up 11%–15%:	2
Up 6%–10%:	7
Up:	3
Flat:	-
Down:	-
Weighted average:	Up 12%–15%

7. Who is gaining or losing market share in used equipment remarketing?

	GAINING	LOSING
Dealers in general:	8	1
Ritchie Bros. Auctioneers:	1	2
Machinery trader:	-	1
Independent brokers/sellers:	1	4
Auction companies in general:	1	6
All the same:	4	4

Note: Some sources gave more than one answer while others did not respond.

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8. Has the volume (in units) of equipment for sale at Ritchie Bros. auctions increased, remained the same or decreased during the past 90 days sequentially?

	JULY	OCTOBER
Increased:	1	-
Remained the same:	3	8
Decreased:	6	5
Other:	1	1
Don't know:	2	1
No response:	2	1

9. Has Ritchie Bros. become more or less aggressive pursuing consignors during the past 90 days qq?

More aggressive:	5	5
Same:	7	7
Less aggressive:	2	-
Other:	-	1
No response:	1	3

10a. Do you expect the volume (in dollars) of equipment you sell through Ritchie Bros. auction platforms to increase, remain the same or decrease during 2021 yy?

Increase:	-	-
Remain the same:	5	9
Decrease:	9	6
No response:	1	-
Not applicable:	-	1

10b. Do you expect the volume (in dollars) of equipment you sell through Ritchie Bros. auction platforms to increase, remain the same or decrease during 2022 yy?

Increase:	-
Remain the same:	10
Decrease:	5
Not applicable:	1

11a. Do you expect the volume (in dollars) of equipment OEM finance arms sell through Ritchie Bros. auction platforms to increase, remain the same or decrease during 2021 yy?

	JULY	OCTOBER
Increase:	4	-
Remain the same:	-	2
Decrease:	10	13
No response:	1	1

11b. Do you expect the volume (in dollars) of equipment OEM finance arms sell through Ritchie Bros. auction platforms to increase, remain the same or decrease during 2022 yy?

Increase:	-
Remain the same:	3
Decrease:	12
No response:	1

12. Do you expect the lack of consistent live events to have a positive impact, no impact or negative impact on Ritchie Bros.?

Positive impact:	3
No impact:	4
Negative impact:	1
Don't know:	1
No response:	7

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