The Changing Structure of The Global Construction Equipment Industry

Frankfurt: January 2013
A Management Consultancy that specialises in the research and analysis of international construction equipment markets.

The largest of its kind in the world.

Formed in 1981 as part of the Economist Intelligence Unit.


Offices in:
- London, England
- New York, USA
- Tokyo, Japan
- Beijing, China
- New Delhi, India

www.offhighway.co.uk
Products Included in This Presentation

- Articulated Dump Trucks
- Asphalt Finishers
- Backhoe Loaders
- Crawler Dozers
- Crawler Excavators
- Crawler Loaders
- Mini Excavators
- Motor Graders
- Motor Scrapers
- Rigid Dump Trucks
- RTLTs – Masted
- RTLTs – Telescopic
- Skid-Steer Loaders
- Wheeled Excavators
- Wheeled Loaders
WE ARE FACING A MOST UNCERTAIN FUTURE
So Where Do We Go From Here?
Global Overview

- Global equipment sales:
  - 2007: $100 billion
  - 2010: $77 billion
  - 2012*: $100 billion
  - 2009: $55 billion
  - 2011: $109 billion
  - 2016*: $121 billion

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2011</th>
<th>2012*</th>
<th>2016*</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>$11.2</td>
<td>$38.9</td>
<td>$31.1</td>
<td>$38.4</td>
</tr>
<tr>
<td>North America</td>
<td>$28.2</td>
<td>$20.3</td>
<td>$21.9</td>
<td>$27.4</td>
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<tr>
<td>India</td>
<td>$1.9</td>
<td>$3.1</td>
<td>$2.6</td>
<td>$5.0</td>
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<tr>
<td>Japan</td>
<td>$4.6</td>
<td>$3.2</td>
<td>$2.9</td>
<td>$3.0</td>
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<tr>
<td>Rest of World</td>
<td>$32.3</td>
<td>$31.8</td>
<td>$29.1</td>
<td>$34.1</td>
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<td>TOTAL WORLD</td>
<td>$98.1</td>
<td>$109.3</td>
<td>$99.6</td>
<td>$120.5</td>
</tr>
</tbody>
</table>

*Forecast
Global Value of Construction Equipment, by Type 2012* ($ Billion)

- Crawler Excavators 38.8
- Crawler Dozers 5.2
- Motor Graders 3.4
- Articulated dump trucks 2.4
- Backhoe Loaders 5.6
- Mini Excavators 6.0
- Wheeled Loaders 24.3
- Rigid Dump Trucks 4.5
- Telescopic Handlers 3.2
- Skid-Steer Loaders 2.6
- Wheeled Excavators 2.5
- Asphalt Finishers 0.8
- Others 0.8

*Forecast
Key Sales Trends, by Region, 2006-2016*

(Units)

China
Europe
North America
India
Japan

*Forecast
Global Recovery: Slow But Sure – In Places
Global Sales of Construction Equipment
2000 – 2016*
(Units)

Average 2007–2011: 867,000
Average 2012-2016*: 998,927

*Forecast
Changing Structure of Demand, 2006-2016*
(% of Total)

2006
- Rest of World: 23%
- China: 18%
- Europe: 20%
- North America: 28%
- Japan: 8%
- India: 3%

2012*
- Rest of World: 25%
- China: 38%
- Europe: 13%
- North America: 14%
- Japan: 5%
- India: 5%

2016*
- Rest of World: 24%
- China: 37%
- North America: 15%
- Europe: 12%
- Japan: 4%
- India: 8%

*Forecast
Europe
A Long Uphill Struggle to Recovery
Europe: Development of Sales, 2000-2016* (Units)

Average 2007-2011: 137,162
Average 2012-2016: 119,275

*Forecast
Europe: Structure of Sales, by Product, 2006-2016*
(% of Total)

*Forecast
Europe: Structure of Sales, by Country, 2006-2012* (% of Total)

2006
- UK: 18%
- France: 18%
- Germany: 27%
- Italy: 16%
- Spain: 11%
- Others: 20%

2012*
- UK: 21%
- France: 21%
- Germany: 27%
- Others: 24%
- Italy: 7%

*Estimate
Europe: Development of Production, 2000-2011
(Units)

Average 2002-2006: 172,804
Average 2007-2011: 153,735
North America
Positive Signs of Recovery
North America: Development of Sales, 2000-2016*
(Units)

Average 2007-2011: 126,020
Average 2012-2016: 142,995

*Forecast
North America: Structure of Sales, by Product, 2006-2012* (% of Total)

**2006**
- Skid-Steer Loaders 26%
- Crawler Loaders 14%
- Mini Excavators 14%
- Wheeled Loaders 13%
- Telescopic Handlers 10%
- Backhoe Loaders 11%
- Others 8%

**2012**
- Skid-Steer Loaders 26%
- Backhoe Loaders 12%
- Crawler Loaders 8%
- Mini Excavators 14%
- Wheeled Loaders 13%
- Telescopic Handlers 7%
- Others 8%

*Estimate
North America: Development of Production, 2000-2011
(Units)

Average 2002-2006: 192,159

Average 2007-2011: 111,420
India
Growth Will Be Erratic, But Assured – In Spite of The Government!
Off-Highway Research

India: Development of Sales, 2000-2016*  
(Units)

Average 2007-2011: 43,748
Average 2012-2016*: 65,232

*Forecast
India: Structure of Sales, by Product, 2006-2016 (% of Total)

**2006**
- Mobile Cranes: 18%
- Backhoe Loaders: 43%
- Crawler Excavators: 18%
- Wheeled Loaders: 6%
- Crawler Dozers: 1%
- Compaction Equipment: 7%
- Others: 7%

**2012* Forecast**
- Mobile Cranes: 14%
- Backhoe Loaders: 3%
- Crawler Excavators: 23%
- Wheeled Loaders: 3%
- Compaction Equipment: 5%
- Others: 5%

**2016* Forecast**
- Mobile Cranes: 12%
- Backhoe Loaders: 38%
- Crawler Excavators: 35%
- Compaction Equipment: 5%
- Others: 5%

*Forecast*
India: Development of Production, 2000-2011
(Units)

Average 2002-2006: 12,923
Average 2007-2011: 36,089
China
Rapid Decline, but Recovery Over the Long Run
China: Sales Trends, by Product Type, 2011-2012*

(Units)

- Compaction Equipment: 17.890 (2011), 9.000 (2012*)
- Mobile Cranes: 34.810 (2011), 20.000 (2012*)
- Mini Excavators: 38.600 (2011), 33.000 (2012*)
- Crawler Excavators: 158.000 (2011), 110.000 (2012*)
- Wheeled Loaders: 219.980 (2011), 185.000 (2012*)

*Forecast
China: Development of Production, 2000-2011
(Units)

Annual Average 2002-2006: 144,768
Annual Average 2007-2011: 336,779
China: Structure of Sales, by Product, 2006-2016* (% of Total)

2006
- Wheeled Loaders 62%
- Crawler Excavators 17%
- Mini Excavators 6%
- Mobile Cranes 7%
- Crawler Dozers 2%
- Compaction Equipment 4%
- Others 2%

2012*
- Wheeled Loaders 48%
- Mobile Cranes 7%
- Mini Excavators 10%
- Mobile Cranes 7%
- Crawler Excavators 31%
- Compaction Equipment 4%
- Others 3%

2016*
- Wheeled Loaders 41%
- Mobile Cranes 7%
- Mini Excavators 12%
- Crawler Excavators 35%
- Compaction Equipment 3%
- Others 2%

*Forecast
Global Sales of Crawler Excavators, 2006-2016*

(Units)

- Global sales, 2012*: 250,000 units
- China sales, 2012*: 110,000 units
- China sales, 2016*: 150,000 units
- Global Sales 2016*: 333,000 units
- China production capacity, 2012*: 460,000 units
- China production capacity, 2016*: 540,000 units

*Forecast
Key Challenges Facing The Chinese Construction Equipment Industry

- Domestic Market
- Overseas
Domestic Market

- Demand built up very rapidly 2005-2010
  - Encouraged massive investment, creating dangerous ‘bubble’

- All manufacturers had unrealistically high expectations for the future
  - Capacity is now 50% too great

- Government cooling down GDP growth rate
  - Reduction in construction expenditure
  - Sharp downturn in demand for equipment, down 30% this year
  - Contractors’ income falling
  - Cannot pay financing on machines

- All OEMs have used easy financing schemes as marketing tool – very dangerous

- Many OEMs now face huge liabilities, and new machines are being repossessed

- Very large young machine populations limiting new equipment sales

- Problems in disposing used equipment

- No recovery until mid – 2013 at earliest
Overseas

- ‘Brand China’ seen to be a problem
  - Poor machine quality
  - Poor customer support

- More of a perception than reality.

- Problem of brand differentiation in ‘Gong’ approach.

- Standards and emissions in developed countries.

- Focus on developing countries
  - Customer expectations are lower
  - Less brand loyalty
  - Lower margins

- Crucial problems of creating distribution network

- Urgent need for:
  - Global brand recognition
  - International management
  - First world distribution customer support

- Probably only achievable short term through acquisition
The Future of Our Industry

China

Rest of the World
Off-Highway Research

THE FUTURE OF OUR INDUSTRY

Evolution stops here
THANK YOU!

Please do not hesitate to contact the team for help at:

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