



YENGST ASSOCIATES

Machinery Market Research

MONTHLY MARKET REPORT | JULY 2017

MARKET ACTIVITIES.....	1
DEERE AND WACKER NEUSON FORM STRATEGIC ALLIANCE.....	1
H&E AND NEFF CORP. SIGN \$1.2 BILLION MERGER DEAL	1
HOME DEPOT TO ACQUIRE COMPACT POWER EQUIPMENT.....	2
VOLVO CE APPOINTS A NEW PRESIDENT.....	3
CATERPILLAR TO BUILD NEW DIVISION HEADQUARTERS IN AZ.....	3
FINANCIAL RESULTS.....	4
FIRST QUARTER RESULTS.....	4
KUBOTA CORPORATION	4
MANITEX INTERNATIONAL	6
TEREX CORPORATION	8
WACKER NEUSON	9
FOURTH QUARTER RESULTS.....	12
HITACHI CONSTRUCTION MACHINERY	12
TRACKING THE TRENDS.....	13
THE US ECONOMY.....	13
HOMEBUILDING SLOWS AGAIN IN MAY	13
CONSTRUCTION SPENDING UNCHANGED IN MAY	15
THE CANADIAN ECONOMY.....	18
STRONG SECTOR GAINS IN MAY BUILDING PERMITS	18
GLOBAL INDICATORS SNAPSHOT.....	20
OUTPUT & PRICES.....	20
EMERGING-MARKET INDICATORS	20



MARKET ACTIVITIES

Deere and Wacker Neuson Form Strategic Alliance

John Deere and Wacker Neuson, through its Kramer-Werke GmbH subsidiary, have formed a strategic alliance whereby Wacker Neuson will begin supplying Deere with compact equipment targeted to agricultural customers. This announcement follows another that came out last month by Deere regarding its planned purchase of Germany's Wirtgen Group, a privately-held international manufacturer of road construction equipment.

The new alliance with Wacker Neuson will focus on the sale of Kramer-branded material handling equipment for the agricultural market, which is an important strategic market for the Wacker Neuson group. The alliance will help Kramer increase its market reach in this segment through a long-term sales collaboration with the John Deere dealer network.

The agreement between Kramer and Deere covers the sale of Kramer-branded compact equipment for the agricultural market, known as the "green line." The products are developed and manufactured at the Kramer site in Pfullendorf, Germany and include Kramer-branded compact, all-wheel steer wheel loaders, telescopic wheel loaders and telehandlers, products not comparable to machinery offered by Deere. The portfolio also includes a large selection of attachments, accessories and spare parts. Kramer will be the preferred supplier of this range of compact agricultural equipment to Deere's independent dealer network.

According to reports, Deere will begin selling the Kramer products in Europe with plans to expand to the Commonwealth of Independent States, North Africa and the Middle East. **The North American market is not included in this alliance at this time.** The "win-win" scenario of the agreement will be a more rapid expansion of Kramer's position in the agricultural sectors in markets where Deere holds strong positions, and for Deere, the ability to provide its dealers with a range of compact equipment that it does not currently offer in these territories.

Deere and Wacker Neuson see the alliance as the start of a long-term strategic collaboration and to further support that objective, Deere plans to become a shareholder in Kramer-Werke GmbH.

H&E and Neff Corp. Sign \$1.2 Billion Merger Deal

Two prominent names in the rental equipment industry have decided to merge forces in a major deal announced July 14th. Baton Rouge, LA-based H&E Equipment Services and Miami, FL-based Neff Corp. have entered into a definitive merger agreement under which H&E will acquire Neff for a total enterprise value of approximately \$1.2 billion (\$21.07 in cash per share of Neff common stock), including approximately \$690 million of net debt. The agreement has been unanimously approved by both companies' boards of directors and is expected to close in the late third quarter or early fourth quarter of 2017, subject to customary closing conditions.

According to the latest *RER 100* list of top rental companies in North America, H&E, which has 78 US branch locations, ranks 9th and Neff, with 69 US branches, ranks 10th in terms of rental revenues. Full-year 2016 financials show H&E posted \$445.2 million in rental revenue and \$978.1 million in total revenue, while Neff reported \$360 million in rental revenue and \$397 million in total revenue. The acquisition will nearly double the number of H&E branches to 147 and raise H&E's rental revenue to \$805 million, making it the fourth largest equipment rental company in North America behind United Rentals, Sunbelt Rentals and Herc Rentals (formerly known as HERC before the tax-free spinoff to Hertz shareholders).

In discussing the strategic rationale for the acquisition, H&E management said it supports and will accelerate the company's strategy to expand its footprint across the US as it pursues market penetration and growth in strategic segments. The transaction is expected to increase H&E's penetration in the non-residential construction market due to the addition of Neff's fleet which is largely concentrated in earthmoving equipment. H&E's existing fleet is concentrated in aerial work platform equipment and its footprint is concentrated in the Gulf Coast, Mid-Atlantic, Southeast and West Coast regions. Neff's existing fleet is comprised primarily of earthmoving equipment along with material handling and aerial equipment. Its operations are concentrated along the Southeast and Southwest areas of the US known as the "Sunbelt" region. The combined fleets of H&E and Neff as of March 31, 2017 totaled \$2.2 billion based on original equipment cost (OEC) and consisted of 43,749 units. The combined earthmoving fleet of H&E and Neff will be one of the largest in the industry at \$727 million based on OEC and comprising 8,736 units.

In effect, H&E management feels that the earthmoving segment is an underpenetrated segment that may afford enhanced growth opportunities. With a much larger earthmoving fleet, H&E will be well-positioned to gain from any future governmental infrastructure spending initiatives and will have a broader exposure to new regional and local customers in the construction market generally.

H&E estimates the acquisition will create \$25 million to \$30 million of synergies annually related to corporate overhead, systems and operational efficiencies, as well as scale benefits for equipment purchases. Based on statements by Neff management, it appears that Neff's 1,160 employees across the country will remain following the acquisition.

[A comprehensive analysis of H&E, Neff and the entire North American rental equipment industry can be found in Yengst Associates' "Rental Equipment Industry North America 2017," published in May 2017 and available by request.]

Home Depot to Acquire Compact Power Equipment

The Home Depot, headquartered in Atlanta, GA, has announced plans to acquire Compact Power Equipment Rental (CPER), a national provider of equipment rental and maintenance services, for \$265 million in cash. The transaction is expected to close by the end of Home Depot's fiscal second quarter, which ends on July 31, 2017.

Compact Power Equipment Rental, based in Fort Mill, SC, sells and services commercial and light construction equipment and has been Home Depot's commercial partner since 2009, providing compact equipment rentals at approximately 1,000 Home Depot stores in the US and Canada. CPER supplements the traditional range of tools, trucks and trailers offered by The Home Depot Tool Rental Center with high quality, towable rental equipment including mini-skid steer loaders, excavators, skid-steers, trenchers and chipper shredders. The relationship has obviously worked very well for both companies and the acquisition will now allow for further development and growth of CPER's building services capabilities.

The Home Depot offers tools and equipment rentals at about 1,300 of its more than 2,100 locations in North America. The company is ranked 5th on the RER 100 list of top rental companies, with \$693 million in 2016 rental volume. As noted in Yengst Associates' May 2017 Rental Equipment Industry Analysis, CPEC has had a strategic partnership with Kubota since December 2011, as a means for Kubota to introduce itself to another customer base. The partnership allows CPEC to offer certain Kubota construction equipment for rent through Home Depot rental stores.

Volvo CE Appoints a New President

Volvo CE has appointed Melker Jernberg as its new president and member of the Volvo Group Executive Board. Mr. Jernberg will be replacing Martin Weissburg, who, due to family reasons, has decided to move back to the US and will take up a position as senior advisor to Volvo's president and CEO Martin Lundstedt. Mr. Weissburg will remain in his position until the end of 2017, and Mr. Jernberg will assume his new role on January 1, 2018.

Melker Jernberg is currently president and CEO of the Sweden-based powder metallurgy company Höganäs. Prior to this, he held the position of executive vice president and head of Business Area EMEA at the Sweden-based steel manufacturer SSAB.

Caterpillar to Build New Division Headquarters in AZ

Construction of a new headquarters for Caterpillar's Surface Mining & Technologies division has reportedly gotten the go-ahead. According to reports, the \$43-million project has received the necessary approval to start construction in Tucson, AZ. When completed, the new headquarters is slated to bring 600 jobs to Arizona.

This project relates to Caterpillar's companywide cost-reduction effort and the company's decision last year to move technical and engineering staff from its mining division operations in South Milwaukee, WI to a new office in Tucson. The South Milwaukee mining equipment fabrication plant remained open, with some management positions remaining there to support that operation. At that time, Caterpillar expected that the new facility in Tucson would create more than 600 new

jobs in Arizona over the next five years, with employees in management, product development and support positions.

FINANCIAL RESULTS

First Quarter Results

Kubota Corporation

As of 2016, Kubota changed its fiscal year-end from March 31 to December 31, resulting in changing the start of the company's full business year to January 1st instead of April 1st. The following table shows first-quarter 2017 results for the company's business year ending December 31, 2017.



-  Kubota's **consolidated revenues** for the first quarter ended March 31, 2017 decreased 0.6 percent to ¥402.8 billion (US\$3.6 billion). **Operating income** for the group fell 32 percent to ¥39.4 billion (US\$353 million) and **net income** fell 24 percent to ¥27.6 billion (US\$248 million).

TABLE 1: KUBOTA CORPORATION
SUMMARY OF FIRST QUARTER RESULTS: YEAR ENDING DECEMBER 31, 2017

¥Millions, \$Millions Consolidated US\$1 = ¥111	1 st Qtr. Ending 3/31/17		1 st Qtr. Ending 3/31/16	% Chg
	Yen	Dollars	Yen	
Revenues*	¥402,823	\$3,615	¥405,369	(0.6)
Farm & Industrial Machinery**	312,381	2,803	303,117	3
Farm Equipment & Engines	252,462	2,266	238,742	6
Domestic	54,888	493	55,294	(0.7)
Overseas	197,574	1,773	183,448	8
Construction Machinery	53,099	477	57,030	(7)
Domestic	7,386	66	8,317	(11)
Overseas	45,713	410	48,713	(6)
Operating Income	39,350	353	57,452	(32)
Net Income	27,584	248	36,353	(24)

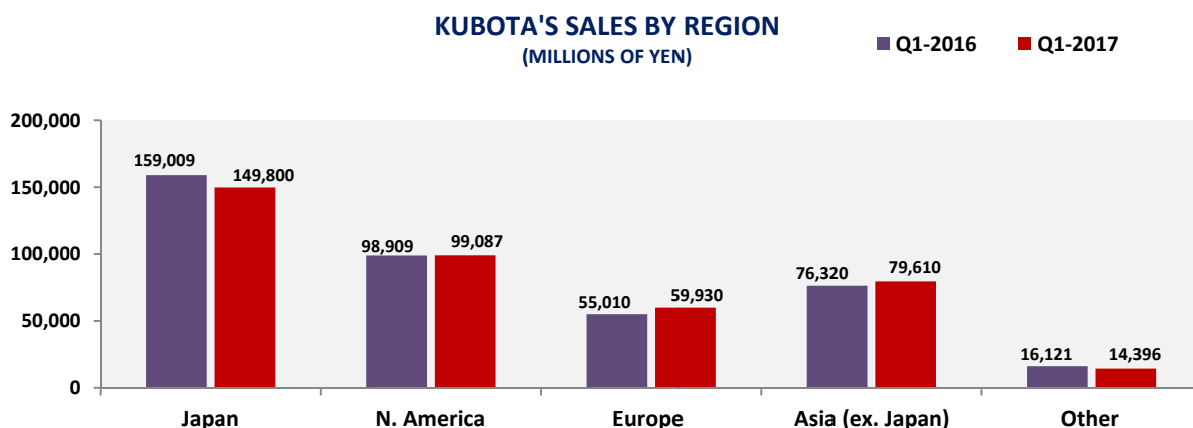
Source: Kubota Corporation. *Other product groups included in revenues: Water & Environment Systems and Other. **Also includes *Electronic Equipped Machinery*, which accounts for 2 percent of revenues for this product group.

-  **Farm & Industrial Machinery** (group) revenues increased 3 percent to ¥312.4 billion (US\$2.8. billion).
 - A 6-percent gain in revenues from **Farm Equipment & Engines** offset a 7-percent decline in **Construction Machinery** revenues.
 - Revenues from overseas markets, up 8 percent increase to ¥197.6 billion (US\$1.8 billion), drove all of the gain in **Farm Equipment & Engines** revenues. Revenues in Japan declined about 1 percent.

- Sales of mid-sized tractors in North America were lower versus the prior-year period.
- **Construction Machinery** sales were strong in Europe despite yen appreciation, and strong as well as in China, but sales in North America declined due to the full-scale shipment of new product in the prior year.

☒ **Recap of first quarter sales by region vs. prior-year period:**

- **Japan:** -6 percent
- **N. America:** +0.2 percent
→ (US sales: -2 percent to ¥83.8 billion or US\$762 million)
- **Europe:** +9 percent
- **Asia outside Japan:** +4 percent
- **Other areas:** -11 percent



☒ **Outlook for Year Ending December 31, 2017:**

[Forecasts are based on the assumption of an exchange rate of ¥110=US\$1.]

- Kubota's forecasts for the year ending December 31, 2017, announced earlier in the year, remain unchanged: 5-percent growth in consolidated **revenues**, to ¥1,680 billion.
- Consolidated **operating income** is expected to be ¥198 billion, a 5-percent increase over 2016, and **net income** is expected to be ¥138 billion, up 4 percent from 2016.

Manitex International**Company Update**

As previously discussed, Manitex has taken steps over the last few years to transform itself with the goal of improving margins and reducing debt. Steps included the divestiture of its CVS Ferrari and Liftking subsidiaries, the continued rebuild of its 51-percent-owned ASV joint venture with Terex, and cost reduction initiatives which saved the company nearly \$11 million in 2016. Manitex also expanded its crane offerings with its 2015 acquisition of PM Group S.p.A., an Italian manufacturer of truck-mounted hydraulic knuckle boom cranes with global distribution in South America, Europe and Africa and high-demand products for distribution through Manitex's North American dealer network.

In January 2017, Manitex announced that its board of directors was considering strategic alternatives for ASV, including the possible sale of all or a portion of the business or its ownership stake, as well as the possibility of ASV becoming a public company. As background, Manitex entered the ASV joint venture in December 2014 and their involvement resulted in the launching of a new, four-model line of ASV skid steer loaders and an expansion of ASV's three-model compact track loader line to four models – all of which occurred in 2015. ASV's compact track loaders and skid steer loaders are manufactured in Grand Rapids, MN.

Latest news regarding ASV indicates that Manitex has decided to sell half of its shares in an underwritten public offering. According to an announcement in May, the company will receive net proceeds of approximately \$13 million for 2 million shares of ASV Holdings, Inc., after which Manitex will retain a minority ownership interest in ASV of 2.1 million shares. Manitex will use the proceeds of the sale to repay debt, and as a result of the transaction, ASV will no longer be included in Manitex's consolidated financial statements. The deconsolidation of ASV, together with Manitex's debt repayment, will result in a total debt reduction of approximately \$56 million.

Manitex is now focusing its resources on higher-margin, core lifting businesses and debt reduction. While demand in the bulk of its industrial equipment markets remained at very low levels in 2016, the company feels it is better positioned this year to take advantage of its strengthening backlog and recapture what it estimates to be an incremental \$175 million in peak-level revenues in its remaining crane businesses.

- ❧ Manitex's first quarter 2017 revenues fell 21percent over the year-ago quarter, to \$68 million, and the company reported a net loss of \$3.4 million compared to net income of \$1.5 million in the first quarter of 2016.
- ❧ Adjusted EBITDA increased 110 basis points to \$5.0 million, or 7.4 percent of sales, compared to \$5.4 million or 6.3 percent of sales for the year-ago quarter.
- ❧ The company achieved cost reductions of \$2.1 million in the first quarter of 2017. A total of \$17.7 million in savings have been achieved to date in the company's 3-year cost reduction program, representing 118-percent of the plan.

❧ **Order backlog** as of March 31, 2017 was \$60.4 million compared with \$38.1 million at the end of December 2016, \$27.1 million at the end of the September, \$63.6 million at the end of June 2016 and \$78.6 million at the end of March 2016.

**TABLE 2: MANITEX INTERNATIONAL, INC.
SUMMARY OF FIRST QUARTER DATA: 2017**

(\$-Thousands) - Consolidated	1 st Q ended 3/31/17	1 st Q ended 3/31/16	% Chg
Net Revenues*	\$67,852	\$85,386	(21)
Operating (Loss)/Income	(1,513)	2,129	---
Net (Loss) from Continuing Operations**	(3,297)	(1,107)	---
Net (Loss)**	(3,411)	1,460	---
Adjusted EBITDA	5,027	5,380	(7)

Source: Manitex International, Inc. *Includes three segments: Equipment Distribution, ASV and Lifting Equipment (which includes the recently acquired PM Group, noted above). **Attributable to Manitex shareholders.

- Highlighting the 58-percent sequential gain in backlog and recent growth trend, management feels the company is still very much in the beginning and far from peak level production and sales levels that are estimated to be approximately \$350 million for existing businesses.

❧ **Lifting Equipment** revenues declined 28 percent year-over-year, to \$37.5 million for the quarter, in part due to the sale of non-core businesses and also as a result of lower sales of Manitex and PM cranes.

- While first quarter revenues were up from the fourth quarter of 2016, sales were not consistent with the increase in backlog due to timing of orders and insufficient production ramp-up to match new demand. The company has adjusted its capabilities for the second quarter.

❧ **ASV** revenues of \$28 million were down slightly from the year-ago quarter. Expanded distribution and a focus on higher-capacity machine sales offset lower undercarriage sales to Caterpillar due to reduced demand.

❧ **Equipment Distribution** revenues decreased by 43 percent to \$3.2 million for the quarter, primarily the result of lower used equipment and parts sales offset in part by a slight increase in rental revenue.

❧ **Outlook for 2017:**

- Management remains optimistic that cost-reduction actions taken over the past two years have better-positioned the company to take advantage of what appears to be the beginning of a recovery.
- Revenues, gross profit and cash flow are expected to move gradually higher this year and beyond as the company increases production and shipments begin to ramp-up to meet backlog.

Terex Corporation

Company Update

Terex completed the sale of its MHPS segment to Konecranes of Finland in January 2017, for a sale price consisting of \$1.3 billion and 25 percent ownership in Konecranes. That divestiture followed the 2016 sale of Terex's German compact construction business to Yanmar for cash proceeds of \$60 million, the closing of the sale of Terex's loader backhoe business based in Coventry, England, and the closing of the sale of its India loader backhoe business (TEPL) to Manitou on May 8th. These transactions reflect the company's strategy to focus and simplify its businesses and build capabilities in key commercial and operational areas. Terex has reduced its business segments to three (Aerial Work Platforms, Cranes and Materials Processing), and through the MHPS sale has retired \$600 million in debt.

At the end of May 2017, Terex announced that its board of directors had authorized a new share repurchase program of up to \$280 million. (Its previous share repurchase program was completed earlier in May.) The company is pursuing a capital allocation strategy that includes share repurchases of \$1 billion to \$1.5 billion. When combined with the \$420 million of shares already repurchased this year, the company has so far repurchased \$700 million in shares.

Terex has completed the transfer of its mobile crane production from Waverly, IA to Oklahoma City, OK and is moving forward on plans to further simplify its manufacturing footprint. In the AWP segment, scissor lift manufacturing is being consolidated from three locations to two and the company is reducing its overall manufacturing footprint including its main campus in Redmond, WA. The AWP segment has also closed its facility in Stockton, CA and plans to close its facility in Waco, TX, consolidating that into Oklahoma City.

**TABLE 3: TEREX CORPORATION
SUMMARY OF FIRST QUARTER DATA: 2017**

(\$-Millions)	1 st Q ended 3/31/17	1 st Q ended 3/31/16	% Chg
Net Sales from Continuing Operations*	\$1,007	\$1,114	(10)
Aerial Work Platforms (AWP)	472	521	(9)
Cranes	264	307	(14)
Materials Processing (MP)**	249	224	11
Corp. & Other/Eliminations***	22	63	(65)
(Loss)/Income from Continuing Operations	(60)	(22)	---
Net (Loss)/Income	(5)	(71)	---

Source: Terex Corporation. *Includes corporate eliminations, acquisitions and special items. **Includes revenue from scrap material handling, concrete mixer truck and concrete paver business from the former Construction segment. ***Includes revenue from remaining product lines of former Construction segment, such as mini-excavators, loader backhoes and site dumpers. Note: MHPS business, recently sold to Konecranes, is accounted for as a discontinued operation.

- Terex reported a **first quarter loss from continuing operations** of \$60.3 million on net sales of \$1.0 billion.
- Excluding **after-tax charges of \$65.8 million**, Terex's adjusted income from continuing operations for the first quarter was \$5.5 million compared with \$5.0 million, as adjusted in the year-ago quarter.

- ⌘ After-tax charges in the first quarter of 2017 were primarily for deal-related costs and refinancing activities.
- ⌘ **Backlog at the end of the first quarter increased 10 percent year over year, with gains in all segments.**
 - Management noted a ***stronger-than-anticipated AWP market in North America***, with positive customer sentiment tempering the impact of the replacement cycle.
 - ***Year-over-year backlog*** grew 21 percent for the AWP segment, 2 percent for Cranes and 29 percent for the MP segment.
 - ***Backlog versus the fourth quarter of 2016*** increased 24 percent for AWP, 26 percent for Cranes and 12 percent for MP.
- ⌘ Sales during the quarter were strong for the MP segment, increasing 11 percent over the prior-year period. Cranes and AWP sales were down, consistent with expectations.
- ⌘ **Regional sales for the first quarter of 2017 were as follows:**
 - ***North America***: -4 percent
 - ***Western Europe***: -29 percent
 - ***Asia/Pacific***: +34 percent
 - ***Latin America***: -65 percent
 - ***E. Europe/ME/Africa***: +15 percent
- ⌘ **Outlook for 2017**: Management did not provide updated guidance from what was offered at the end of 2016. Guidance at that time was for net sales of continuing operations to be approximately \$3.9 billion with segment sales guidance as follows:
 - ***AWP***: -12 percent
 - ***Cranes***: -11 percent
 - ***MP***: +1 percent
 - ***Corporate and Other***: \$90 million

Wacker Neuson

Company Update

Please see our previous section (*Market Activities*) for the recent announcement of Wacker Neuson's new strategic alliance with John Deere. Additionally, Wacker Neuson's CEO, Cem Peksaglam, announced plans to leave the company rather than renew his six-year contract which is expiring in August 2017. He will be replaced by Martin Lehner, who currently serves as Wacker Neuson's CTO and current Deputy CEO.

As previously discussed, Wacker Neuson's strategic alliance with Caterpillar for mini hydraulic excavators that began in 2010 is being gradually phased out. According to the announcement released last summer, the companies agreed that the alliance would end as of May 31, 2018, with Caterpillar shifting design and production to its own facilities beginning in 2018 and Wacker Neuson continuing to manufacture selected mini excavator models until the end of 2019.

Wacker Neuson offers an extensive range of tracked excavators in the 0.8-to-14.5-ton size range as well as several wheeled compact excavators. The company had been developing and producing mini excavators under three tons operating weight exclusively for Caterpillar at its production plant in Hörsching, Austria. The machines were distributed and supported via Caterpillar's global dealer network, with the exception of Japan which was being supplied by Caterpillar's Japanese facilities. Despite ending of the alliance, both organizations said they will continue to support customers with spare parts, technical services and warranty for current models. Additionally, Wacker Neuson's light and compact equipment sold and serviced by Wacker Neuson at Cat dealers and rental stores will not be affected.

- Wacker Neuson's first quarter revenue increased 7 percent over the prior year period, to €338.5 million, a new record high for a first quarter.

- Management attributed the gain to improved market dynamics, especially strong demand from the construction sector in the Americas and almost all parts of Europe.

- After experiencing losses in 2016, first quarter revenue from **light equipment** increased 7 percent to €98.4 million, with currency effects accounting for 2.5 percent of that increase due to this segment's wide international reach.

- From a demand standpoint, increased demand for soil compaction equipment, primarily in Europe, drove the revenue gain for the quarter.

- Compact equipment** revenue increased 6.8 percent over the prior-year period, to €176.4 million, driven by strong sales in Europe.

- Order backlog** at the end of the first quarter was up 22 percent from the prior-year's level, and **accumulated order intake** at March 31st was 11 percent higher than the previous year.

**TABLE 4: WACKER NEUSON
SUMMARY OF FIRST QUARTER DATA: 2017**

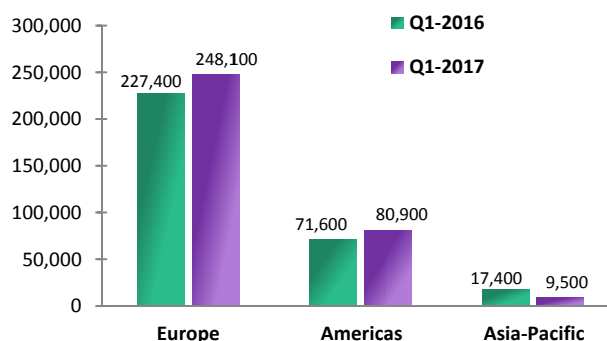
(€-Millions)	1 st Q ended 3/31/17	1 st Q ended 3/31/16	% Chg
Revenues	€338.5	€316.4	7
Light Equipment	98.4	91.7	7
Compact Equipment	176.4	165.2	7
Services	68.7	63.5	8
EBITDA	31.7	34.2	(7)
Total Profit	9.3	11.3	(18)

Source: Wacker Neuson SE.

- **Revenue from agricultural equipment** (representing 13.5 percent of segment revenue) fell 2.3 percent to €46.4 million. Double-digit growth in the Kramer and Weidemann brands was offset by a revenue loss resulting from the strategic alliance with Claas, which will terminate at the end of this year.

Revenue in the core market of **Europe** increased 9 percent in the first quarter to €248 million, driven by gains in Germany, Scandinavia, France, and in Southern and Eastern Europe, with the exception of Turkey.

Wacker Neuson Sales by Region (€-000s)



Revenue in the **Americas** rose 13 percent to €81 million (+8.5 percent excluding currency effects). Growth was generated by gains in compact equipment manufactured in the US and in Europe.

- Demand in the oil and gas industry in Canada and the US remained weak.
- Business in South America grew significantly with double-digit growth reported for the quarter.

Asia-Pacific revenues decreased 45 percent to €9.5 million, largely due to China, where the company's compact equipment stocked up on machines in the year-ago quarter.

- While revenue in Australia and New Zealand improved significantly over the prior-year period, this was offset by a 24-percent decline in emerging markets, mainly due to the China issue described above.
- Wacker Neuson is currently constructing a production plant in China, with plans to initially manufacture excavators. The company expects positive results in China for the full year.

2017 Outlook: Based on the current healthy order situation, positive trends in the core markets of Europe and the US, a more upbeat mood in the agricultural sector, growing business momentum in South America and a gradual recovery in market dependent on raw materials' prices (including Australia), management expects positive revenue trends to continue through the rest of the year.

- Revenue for 2017 is expected to be within a range of €1.40 to €1.45 billion (2016: €1.36 billion).

- The company has earmarked approximately €120 million in total for investments (2016: €107 million).

Fourth Quarter Results

Hitachi Construction Machinery

Company Update

HCM has added a new business segment into its existing construction machinery since its fiscal year 2016 (ending March 31, 2017). The **Solution business** consists of two consolidated subsidiaries: HE-Parts International LLC, consolidated in the third quarter of FY2016, and Bradken Limited, consolidated in the fourth quarter of FY2016. The two subsidiaries provide various types of parts along with service and maintenance for HCM equipment. Consolidated revenue for this new business for the fiscal year ending March 31, 2017 was ¥6,691 million (US\$60 million).

- HCM's **consolidated revenue** for the fiscal year ending March 31, 2017 was ¥754 billion (US\$6.8 billion), down 0.6 percent from the prior fiscal year.

TABLE 5: HITACHI CONSTRUCTION MACHINERY
SUMMARY OF FULL YEAR RESULTS: FISCAL YEAR ENDING MARCH 31, 2017

¥Millions, \$Millions Consolidated US\$1 = ¥111	Year ending 3/31/17		Year ending 3/31/16	% Chg
	Yen	Dollars	Yen	
Total Net Sales*	¥753,947	\$6,792	¥758,331	(0.6)
The Americas	85,484	770	99,694	(14)
Europe	87,565	789	89,011	(2)
Russia-CIS, Africa and the Middle East	76,268	687	82,167	(7)
Asia and Oceania	207,181	1,867	200,854	3
China	71,463	644	53,805	33
Japan	225,986	2,036	232,800	(3)
Operating Income**	23,622	213	34,052	(31)
Net Income/(Loss)***	8,022	72	8,804	(9)

Source: Hitachi Construction Machinery Co., Ltd. *Consists of the Construction Machinery and Industrial Vehicles (forklifts) business segments. **Includes the impact of business restructuring. ***Attributable to owners of the parent.

- Operating income** decreased 31 percent to ¥23.6 billion (US\$213 million) and **net income** declined 9 percent to ¥8 billion (US\$72 million).

- The decline in operating income was due to restructuring costs and the negative impact of the gain from restructuring reported in the prior fiscal year.
- Excluding those costs, operating income as adjusted increased 21 percent to ¥28.3 billion (US\$255 million), due to a reduction in overhead costs.

- ✧ **Domestic sales** accounted for 30 percent and **overseas sales** accounted for 70 percent of total sales for the year.
- ✧ As shown in the table, **sales were down across most markets with the exception of Asia/Oceania and China**, where a recovery of demand for hydraulic excavators drove sales growth of 3 percent and 33 percent, respectively.
- ✧ Demand recovery was also noted in **Europe**, although sales were still down by 2 percent for the year.
- ✧ Management noted that mining excavator demand increased approximately 10 percent due to recovery of commodity prices that began in the middle of its fiscal year; however, demand for rigid dump trucks was down 20 percent.
 - Demand for ultra-large machines was significant for both hydraulic excavators and rigid dump trucks.
- ✧ A 14-percent decline in sales in the **Americas** was the result of lower sales in **North America** – down 15 percent to ¥78.5 billion (US\$707 million) – which offset a 4-percent gain in **Latin America**, to ¥7 billion (US\$63 million).

Outlook for Fiscal Year Ending March 31, 2018:

- ✧ Management's current forecast is for net sales of ¥810 billion (+7 percent from fiscal 2016); operating income of ¥44 billion (+86 percent); and net income of ¥18 billion (+124 percent). **[Assumes ¥105=US\$1 exchange rate]**
- ✧ The company expects slightly higher global demand for construction machinery such as hydraulic excavators, with increased sales in India and China, while demand in Russia and the Middle East is expected to remain slow.
- ✧ An increase in capital expenditures at some major mining companies is expected to drive a slight increase in mining machinery demand.

TRACKING THE TRENDS

The US Economy

The following section includes discussion of both seasonally-adjusted and non-seasonally adjusted (NSA) data. NSA data reflects actual numbers reported in a given month without any adjustment for seasonal factors. We present both types of data to give readers a more complete view of market activity.

Homebuilding Slows Again in May

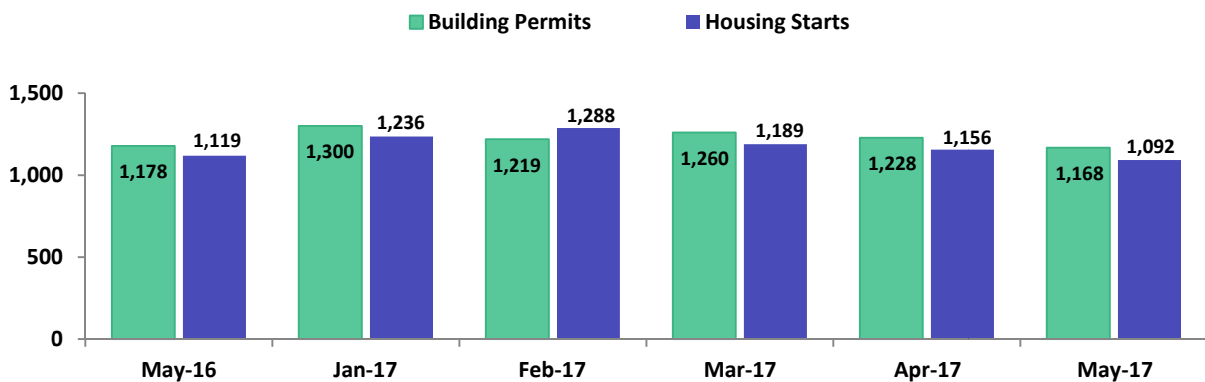
The following data from the US Census Bureau is preliminary for May and includes revisions to April and March.

(Seasonally-adjusted data)

- ✧ **Homebuilding in the US fell for the third straight month in May, with housing starts dropping 5.5 percent to an annualized rate of 1.09 million units – the lowest level since September 2016.**
- ✧ The decline in total housing starts was due to weaker starts for both single- and multi-family units, both of which fell to eight-month lows.
 - **Single-family starts** fell 4 percent to 794,000 units; however, starts were up 8.5 percent from May 2016.
 - **Multi-family starts** fell for the fifth straight month in May, dropping 10 percent to 284,000 units – which was 26-percent below last year's pace.

US BUILDING PERMITS & HOUSING STARTS: YTD & VS. MAY-16

(000'S OF UNITS, SAAR)



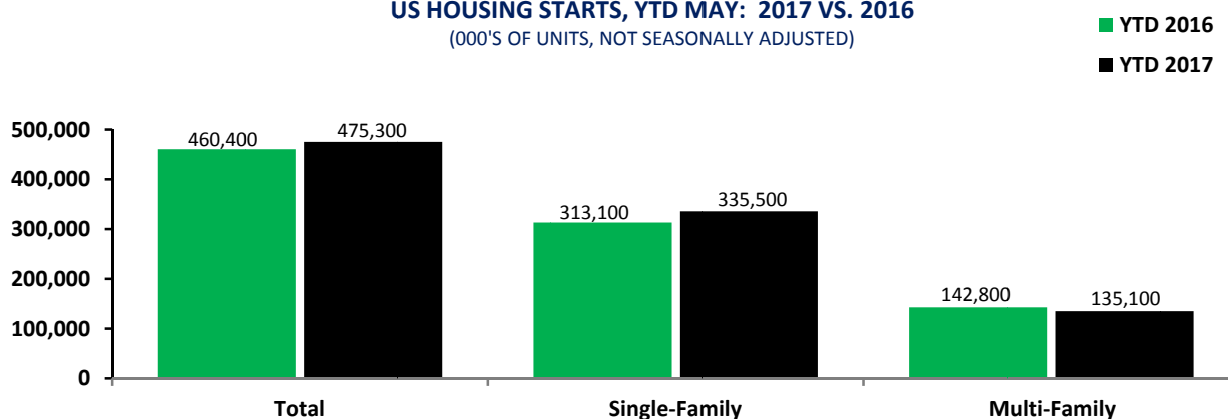
- ✧ **Across the four US regions, housing starts weakened in the Midwest and South – both down 9 percent from April.**
 - In the South, starts fell for the fourth straight month to the weakest level since October 2015.
- ✧ **Building permits also weakened in May, falling 5 percent to an annual rate of 1.17 million.**
 - Similar to housing starts, the decline was due to weaker permits for both single- and multi-family units, down 2 percent and 10 percent, respectively.
 - Versus a year ago, total building permits were down 1 percent in May, with a 13-percent drop in multi-family permits. Single-family starts were up 6 percent from a year ago.

- From a regional standpoint, the May decline was largely due to weakness in the Midwest and West.

(Year-to-date data, non-seasonally-adjusted data)

- ⌘ **Housing starts from January through May** totaled 475,300, up 3 percent from the same period in 2016. Single-family starts increased 7 percent to 335,500, while multi-family starts (5+ units) declined 5.4 percent to 135,100.
- ⌘ **Building permits through May** totaled 500,600, up 5.5 percent from the same period in 2016. Single-family permits increased 11 percent to 336,000 while multi-family permits (5+ units) fell 4.4 percent to 150,900.

US HOUSING STARTS, YTD MAY: 2017 VS. 2016
(000'S OF UNITS, NOT SEASONALLY ADJUSTED)



- ⌘ While much of the housing data of late has been discouraging, the **National Association of Realtors (NAR)** offered some encouraging news regarding first-time home buyers. **According to their latest data for May, first-time home buyers made up 33 percent of all home transactions in May, a 3-percent gain over last year.** This piece of data is supported by further data examining online searches about housing topics (compiled by Chase Home Lending), which shows an 11-percent gain in searches related to buying a first home and a 34-percent jump in searches related to affordability.

Construction Spending Unchanged in May

- ⌘ **Total US construction spending for May** was estimated at \$1.23 trillion (SAAR), flat with April following an upward revision to the initial April estimate of \$1.219 trillion.
- ⌘ Within the sectors, across-the-board declines in private construction spending were offset by a rebound in public spending.

Private sector spending versus a year ago was up in all categories but especially for residential construction – with an 11-percent gain over May 2016.

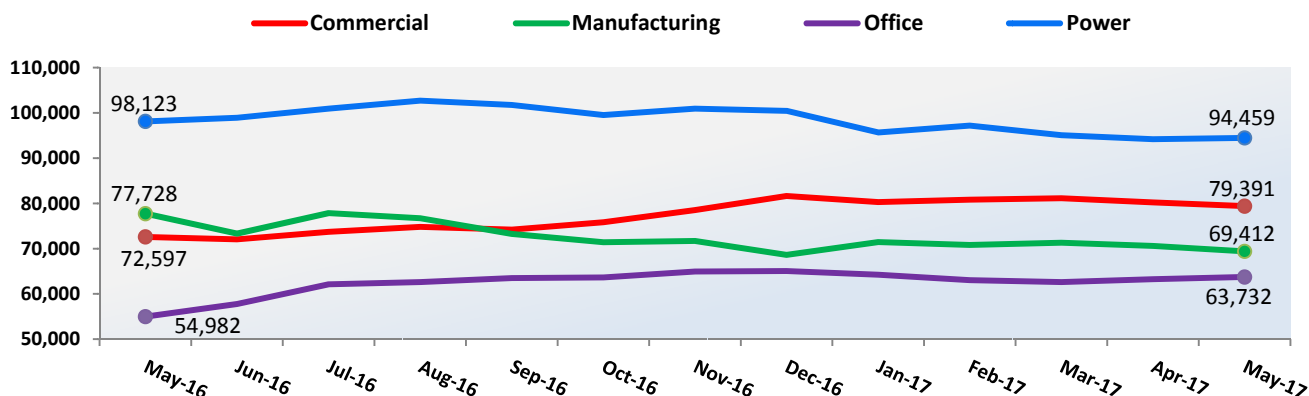
- In comparison to the residential sector, **private non-residential construction spending has been lackluster**, down for a third straight month in May to \$434 billion.

TABLE 6: VALUE OF US CONSTRUCTION PUT IN PLACE, SEASONALLY ADJUSTED ANNUAL RATE (SAAR)

(\$-Billions)	May-17	% Chg: May-17 vs.	
		Apr-17	May-16
Total Construction	\$1,230	---	4.5
Private	943	(0.6)	6
Residential*	510	(0.6)	11
New Single Family	260	(0.3)	8
New Multi-Family	62	(3)	3
Non-Residential	434	(0.7)	0.8
Public	287	2	(0.6)
State and Local	262	2	(1)
Federal	25	6	6

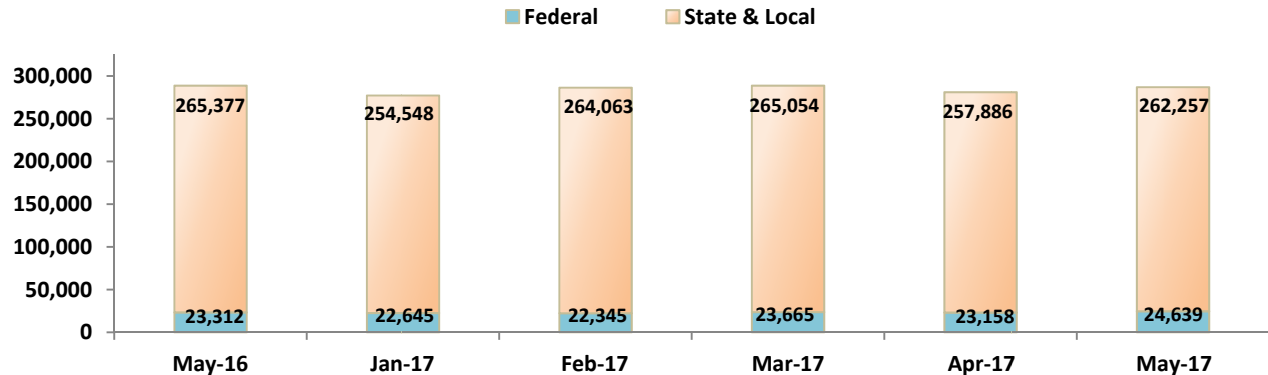
Source: U.S. Census Bureau *includes improvements.

PRIVATE NON-RESIDENTIAL CONSTRUCTION SPENDING
TOP CATEGORIES - LAST 12 MONTHS (\$MIL., SAAR)



- Of the four top categories of non-residential construction illustrated in the bar chart, spending over the last 12 months has decreased in **Power** (-4 percent) and **Manufacturing** (-11 percent) and has increased in **Commercial** (+9 percent) and **Office** (+16 percent).
- Year to date spending in the top four categories has been flat.**

**PUBLIC CONSTRUCTION SPENDING: FEDERAL, STATE & LOCAL
MAY-17 YTD AND VS. MAY-16 (SAAR, \$-MILLIONS)**



Public sector spending rebounded in May with a 2-percent gain over April, to \$287 billion. Of the sector's 12 categories, spending decreased in three – the most prominent being **Highway and Street construction**.

- **Highway and Street spending fell for the second straight month in May, down 1 percent to \$90.6 billion.**
- **Federal government construction spending** rebounded in May with a 6.4-percent gain to \$24.6 billion, driven by higher construction spending for Offices, Healthcare, Transportation, and Conservation and Development.
- **Federal spending for highway and street construction fell for the second straight month in May, down 13 percent to \$1.17 billion.** May spending versus a year ago, however, was up 61 percent.
- **State and local government construction spending** also rebounded in May, up 1.7 percent to \$262.3 billion, largely driven by higher spending for Educational buildings, Offices, Public Safety and Power facilities.
- **State and local spending for highway and street construction fell for the second straight month in May, down 0.7 percent to \$89.4 billion.** Spending versus a year ago was up by about 1 percent.

(Non-seasonally-adjusted data)

From January through May 2017, construction spending rose 6 percent over the same period in 2016, to \$469.2 billion.

- **The private sector is still driving all of the gain this year**, with spending up 9 percent over the year-ago period, to \$368.7 billion.
- **Private residential construction spending** increased 12 percent to \$173.6 billion, driven by gains in both single family (+7 percent) and multi-family (+6 percent) construction.
- **Non-residential construction spending** increased 5 percent in the period to \$173.5 billion, driven by gains in Office, Commercial and Power facilities.
- **Public construction spending** decreased 3.5 percent to \$100.5 billion due largely to y/y declines in Power, Sewage and Waste Disposal, and Water Supply facilities, and in Highway and Street construction.

The Canadian Economy

Strong Sector Gains in May Building Permits

- ✎ **Canada's building permits increased 9 percent in May to C\$7.7 billion, the third highest value on record and more than three times the expected gain.**
- ✎ In addition to the strong May gain, April data was revised upward to a 0.5-percent increase from the initial estimate of a 0.2-percent decline.
- ✎ As shown in the table, higher permits in the residential sector led the overall gain; however, non-residential permits posted a healthy increase as well.

TABLE 7: VALUE OF BUILDING PERMITS IN CANADA

(C\$-Millions, SAAR)	May-16	Mar-17	Apr-17 ^R	May-17 ^P	% Chg: May-17 vs. Apr-17 May-16	
Canada	6,985	7,069	7,107	7,740	9	11
Residential	4,401	4,588	4,527	5,016	11	14
Single-family	2,329	2,713	2,522	2,710	7	16
Multi-family	2,071	1,875	2,004	2,306	15	11
Non-residential	2,584	2,481	2,581	2,725	6	5
Industrial	386	447	497	545	10	41
Commercial	1,300	1,321	1,294	1,461	13	12
Institutional	900	713	791	719	(9)	(20)

Source: Statistics Canada. P=preliminary; R=revised

- ✎ **Residential permits** rose sharply with an 11-percent to C\$5 billion, putting the year-over-year gain at 14 percent. Six provinces posted gains, the largest being Ontario.

- Following a 7-percent gain in April, **multi-family permits** jumped 15 percent to \$2.3 billion.
 - **Single-family permits** in May increased 7 percent to C\$2.7 billion, rebounding from a 7-percent decline in April.
 - **Canada's municipalities approved the construction of 18,037 new residences in May**, up 7 percent from April and driven entirely by multi-family component which represented 67 percent of the total.
 - **Ontario contributed the most to the increase in approved new residences** in May, bringing its year-to-date total to 35,860, up from 30,661 for the same period in 2016.
 - Residential data for May could indicate some easing in tight supply conditions that have been blamed for surging home prices in the high-demand Toronto market.
- ⌘ **Non-residential permits** rose for the third consecutive month, up 5.6 percent to C\$2.7 billion. Five provinces posted gains, led by Alberta and New Brunswick.
- ⌘ Within the sector, double-digit gains were posted in the **Industrial** and **Commercial** components, while the **Institutional** components posted a 9-percent decline following an 11-percent gain in April.
- ⌘ Across regions, building permits rose in seven provinces in May, led by Ontario and Alberta, and were up in 22 of 36 census metropolitan areas.

Global Indicators Snapshot

Output & Prices - % change at annual rate

Country	-----GDP-----		GDP Forecasts†		Consumer Prices		Consumer Prices† Forecasts
	latest	qtr*	2017	2018	latest	year ago	2017
Australia	+1.7 Q1	+1.1	+2.4	+2.9	+2.1 Q1	+1.3	+2.2
Britain	+2.0 Q1	+0.8	+1.6	+1.2	+2.9 May	+0.3	+2.7
Canada	+2.3 Q1	+3.7	+2.3	+2.0	+1.3 May	+1.5	+1.8
France	+1.1 Q1	+1.9	+1.5	+1.6	+0.7 Jun	+0.2	+1.2
Germany	+1.7 Q1	+2.4	+1.8	+1.7	+1.6 Jun	+2.2	+2.2
Italy	+1.2 Q1	+1.8	+1.1	+1.0	+1.2 Jun	-0.4	+1.4
Japan	+1.3 Q1	+1.0	+1.3	+1.1	+0.4 May	-0.4	+0.6
Sweden	+2.2 Q1	+1.7	+2.6	+2.4	+1.7 May	+0.6	+1.6
United States	+2.1 Q1	+1.4	+2.2	+2.3	+1.9 May	+1.0	+2.0

Source: The Economist, July 15th, 2017. *% chg. on previous quarter, annual rate. †The Economist poll or Economist Intelligence Unit estimate/forecast.

Emerging-Market Indicators

Country	-----% Change on year earlier-----		
	GDP	Industrial Production	Consumer Prices
China	+6.9 Q1	+6.5 May	+1.5 May
India	+6.1 Q1	+3.1 Apr	+2.2 May
Indonesia	+5.0 Q1	+6.4 Apr	+4.4 Jun
Malaysia	+5.6 Q1	+4.1 Apr	+3.9 May
South Korea	+3.0 Q1	+0.1 May	+1.9 Jun
Argentina	+0.3 Q1	-2.5 Oct	+24.0 May**
Brazil	-0.4 Q1	+3.9 May	+3.6 May
Chile	+0.1 Q1	+0.1 May	+2.6 May
Columbia	+1.1 Q1	-6.8 Apr	+4.0 Jun
Mexico	+2.8 Q1	-4.4 Apr	+6.2 May
Venezuela	-8.8 Q4~	na	na
South Africa	+1.0 Q1	-0.2 Apr	+5.4 May
Russia	+0.5 Q1	+5.7 May	+4.1 May

Source: The Economist, July 15th, 2017. **New Series. ~2014



Charles Yengst, President

• **YENGST ASSOCIATES** For over two decades, corporations throughout the world have relied on our research and consulting services. Our knowledge of the North American and overseas machinery markets, and our on-going contacts allow us to obtain the most accurate and up to date information available. This makes our reports indispensable tools in all areas of corporate and investment planning. We work closely with our clients, offering the highest level of service in a timely and confidential manner.

• **SUBSCRIPTION SERVICES** Through a series of comprehensive reports, we provide extensive research on machinery markets in North America, covering more than 25 types of equipment used in construction, mining, industrial and agricultural applications. Subscribers receive: Equipment Analyses, Company Profiles, Forecasts, Market Reports and Inquiry Privileges. Coverage includes: sales breakdowns, market share and production information, factors of demand, trade data, component use, field population estimates, forecasts and competitive analyses of manufacturers.

• **DATABASE SERVICES** Sales, production and component use in machinery is available to give clients a competitive advantage in the marketplace.

• **ON-LINE SERVICES** Research and database services can be quickly accessed on-line through our website, with the latest news events and commentary.

• **COUNTRY REPORTS** We provide on-going coverage of high-growth markets in global regions.

• **PRIVATE RESEARCH STUDIES** Clients continually seek our help on a wide variety of topics, such as product distribution, pricing, competitive and financial analyses, diversification and acquisitions, market feasibility and end-user surveys, to name a few.

For additional information, please contact:

Yengst Associates, Inc.
P.O. Box 781
35 Old Ridgefield Road
Wilton, Connecticut 06897-0781 USA

Telephone: 1-203-762-8096

Fax: 1-203-762-8330

E-mail: mail@yengstassociates.com

Website: www.yengstassociates.com

