NA Classes 5-8 Market Demand: Best to Worst to Best to ….. ?

Ken Vieth
A.C.T. RESEARCH Co., LLC
June 3, 2005
A.C.T. Research Co., LLC

State of the Industry (SOI) Reports:

1. NA Classes 5-8 Vehicles
   1a. Classes 5-8 Vehicles by Country
   1b. Classes 5-7 Bus Report

2. NA BU and RS by OEM by Country

3. U.S. Trailers (with TICG database)

4. NA Classes 5-7 Bus Market

5. Topical Studies/White Papers

The OUTLOOK, The Road Ahead
with FTR Associates

Global Commercial Vehicle Forecast (GCVF)
with LMC Automotive/ JD Powers
Class 8 Demand Drivers Aligned

• Recent soft-patch aside, economy still healthy
• Needed units for new freight growth
• Still working off pent-up replacement demand
• Healthy used equipment market
• Truckers making money
• 2007 EPA mandate adds sense of urgency
TL Carrier Database:
Average Miles Per Tractor

Q1'95 - Q1'05

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## Truck Age Sales Year

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<th>Sales Year</th>
<th>Cumulative Miles* (000s)</th>
<th>US, Can, Mex** (000s)</th>
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<td>699</td>
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* Cumulative miles derived from ACTR's Publicly Traded Carrier data.
** Data excludes export sales volumes.
PREBUY RECAP

- **Old Engine Costs**
- **New Engine Costs**
- **Flat Freight Rates**
- **Higher Freight Rates**

- **Winners**
- **Losers**
Prebuy: Then and Now

• Pre-2002
  – Profitability collapse
    • Overcapacity and freight rate decline
    • Asset values fall
    • Failures soar
    • Capital evaporates
  – Complacency
    • Previous mandates generally improved engine life and MPG

• Pre-2007
  – Profit Plateau
    • Equipment valuations strong
    • Freight rates continue double-digit y/y growth in Q1
    • Truckers generating strong profits
    • Drivers are capacity limiting factor
  – Truckers on alert
    • not willing to give manufacturers benefit of doubt a second time
Cumulative Over/Underbuy: U.S. RS Relative to GDP

1992 - 2007e

1997 - 2007e

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CLASS 8 MARKET INDICATORS

• Class 8 orders experience temporary softening
• Cancellations remain on trend at low levels
• Backlogs down in March and April
• Build rates move to new plateau in April
• Retail sales following build higher
• Inventories rising on absolute and relative basis
TOTAL CLASS 8: N.A. BACKLOG & BL/BU RATIO
January '98 - April '05 (Not Seasonally Adjusted)
# Build Timing of Units in Backlog: as of April 30, 2005

## CLASS 8

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<td>65,335</td>
<td>45,895</td>
<td>20,766</td>
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<tr>
<td>. Mix by scheduled build date</td>
<td>27.9%</td>
<td>35.7%</td>
<td>25.1%</td>
<td>11.3%</td>
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<td>OEM BUILD PLAN</td>
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<td>84,982</td>
<td>82,300</td>
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<td>. Open build slots</td>
<td>8,643</td>
<td>19,647</td>
<td>36,405</td>
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<td>64,695</td>
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<td>. % Open</td>
<td>14.5%</td>
<td>23.1%</td>
<td>44.2%</td>
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Class 8 Summary

• Class 8 demand should boom through 2006
  – Units to cover new freight growth
  – Strong replacement demand
  – Truckers on top of profit cycle (plateau?)
  – Trucker desire to initially avoid 2007 engines

• Big questions for 2006 and 2007:
  – How strong will demand be following recent price hikes?
  – How much capacity will the supplier base add to address strong demand for Class 8 ahead of EPA ‘07?
  – Where will the economy be in late 2006/early 2007?
Classes 6-7 Trucks
TOTAL CLASSES 5-7: N.A. BACKLOG
April '98 - April '05 (Not Seasonally Adjusted)

Units (000s)

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Issues Impacting Classes 5-7 Demand

- 2007 emissions still an unknown, impact may be minimal
  - Expect a perceptible impact in 2005 and 2006
  - Greatest impact could be from sticker shock
  - Buy to support business. If need a truck and have the $.....

- If demand increases, OEMs will likely have to compete for resources and capacity

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Long-Term: N.A. CI 8 Retail Sales

Source: ACT Publications, FTR Associates, ACT Research
Long-Term: N.A. Cl 8 Production

Source: ACT Publications, FTR Associates, ACT Research
Long-Term: U.S. Trailer Factory Shipments

Source: FTR Associates, ACT Publications, ACT Research
Long-Term: N.A. Cl. 5-7 Retail Sales

Thousands of Units

1998: 223
1999: 269
2000: 239
2001: 209
2002: 202
2003: 208
2004: 252
2005E: 264
2006E: 272
2007E: 246
2008E: 279
2009E: 287

Source: FTR Associates, ACT Research
Classes 4-8 Used Trucks Sold by Respondents: 2004

- 3 years old: 3%
- 4 years old: 11%
- 5 years old: 33%
- 6 years old: 24%
- 7 years old: 13%
- 8+ years old: 16%
Average Mileage of Classes 4-8 Used Trucks Sold by Respondents: 2004
Average Selling Price per Mile
Class 8 Wholesale


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Expected Miles to Overhaul/Useful Life

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Potential US Class 8 Used Truck Market?

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<td>210</td>
<td>254</td>
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<td>Stronger Economy</td>
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Class 8 First Trade Cycle Changes Due To 2007/2010 Emissions

- Respondents are:
  - Shortening from 5.9 to 4.6 years
  - Lengthening from 4.4 to 6.3 years

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