

Industrial

July 20, 2011

Industry Brief

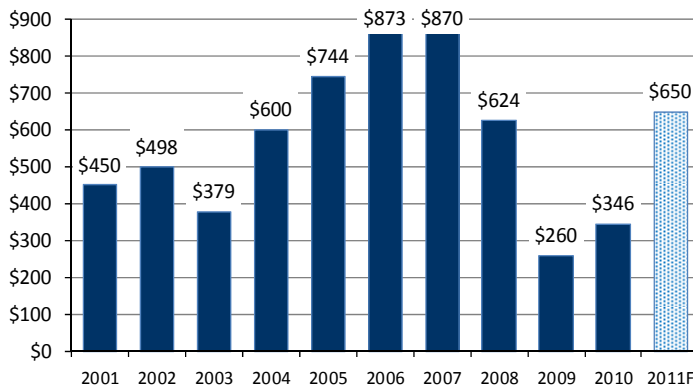
**Ben Cherniavsky** | 604.659.8244 | ben.cherniavsky@raymondjames.ca  
**Theoni Pilarinos** CFA | 604.659.8234 | theoni.pilarinos@raymondjames.ca  
**Greg Jackson** (Associate) | 604.659.8262 | greg.jackson@raymondjames.ca

Infrastructure & Construction

CAT and RBA Implications of United Rentals` 2Q11 Results

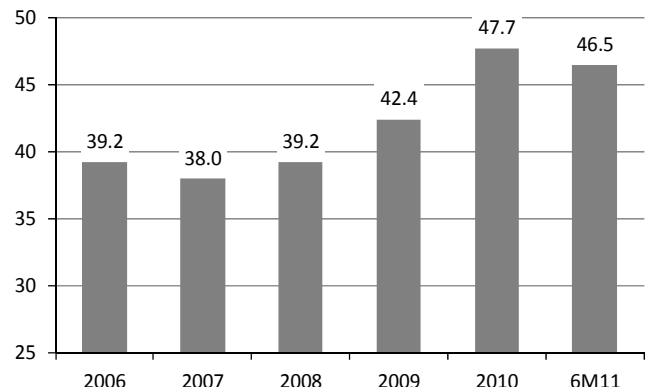
- ◆ Yesterday after market, industry bellwether United Rentals (URI-NYSE) announced 2Q11 EPS of \$0.38 per diluted share compared with \$0.18 last year. Adjusted EPS was \$0.40 compared with \$0.25 last year. While CAT and its dealers do not sell to URI directly, we view this company as an indicator of the rental market at large.
- ◆ URI’s release provides a good example of how US equipment sales have been strong despite weak construction spending, which boils down to a catch-up in replacement demand. After major cuts to equipment purchases, fleet owners, including the likes of major rental companies, continue to show strong equipment replacement demand as demonstrated below.
- ◆ URI continues to increase its capex, which still remains well below the previous cycle’s peak. In its 2Q11 release, URI provided gross rental purchase guidance for the year of \$650 mln (up from \$346 mln last year). As shown in Exhibit 1 below, this is a significant increase over last year’s numbers, but still well below the last peak of \$873 mln in ’06.
- ◆ Equipment fleets are still much older than they have been historically, though recent spending has started to reverse this trend (see Exhibit 2 below).
- ◆ These data points bode well for both Caterpillar (CAT) and Ritchie Bros. (RBA), which respectively manufacture and redistribute the equipment that is flowing in the US market (and worldwide). CAT reports this Friday and RBA reports Aug-5 (see our Earnings Preview, also published today).

Exhibit 1: United Rentals’ Capex (mlns) (2001-2011F)



Source: Capital IQ, Raymond James Ltd.

Exhibit 2: Average Fleet Age (months) (2006-6M11)



Source: United Rentals, Raymond James Ltd.

Company	Ticker Primary	Ticker Secondary	Current Price	Dividend Yield	Rating
<b>Original Equipment Manufacturers</b>					
Caterpillar Inc.	CAT-NYSE		US\$109.64	2%	Strong Buy 1
<b>Equipment Distributors</b>					
Ritchie Bros. Auctioneers	RBA-NYSE	RBA.T-TSX	US\$27.35	2%	Outperform 2

Raymond James Ltd.

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**Growth (G)** Low to average risk equities with sound financials, more consistent earnings growth, possibly a small dividend, and the potential for long-term price appreciation.

**Aggressive Growth (AG)** Medium or higher risk equities of companies in fast growing and competitive industries, with less predictable earnings and acceptable, but possibly more leveraged balance sheets.

**High Risk (HR)** Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

**Venture Risk (VR)** Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

## Rating Distributions

	Coverage Universe Rating Distribution		Investment Banking Distribution	
	RJL	RJA	RJL	RJA
<b>Strong Buy and Outperform (Buy)</b>	76%	55%	59%	16%
<b>Market Perform (Hold)</b>	22%	40%	43%	5%
<b>Underperform (Sell)</b>	2%	5%	0%	0%

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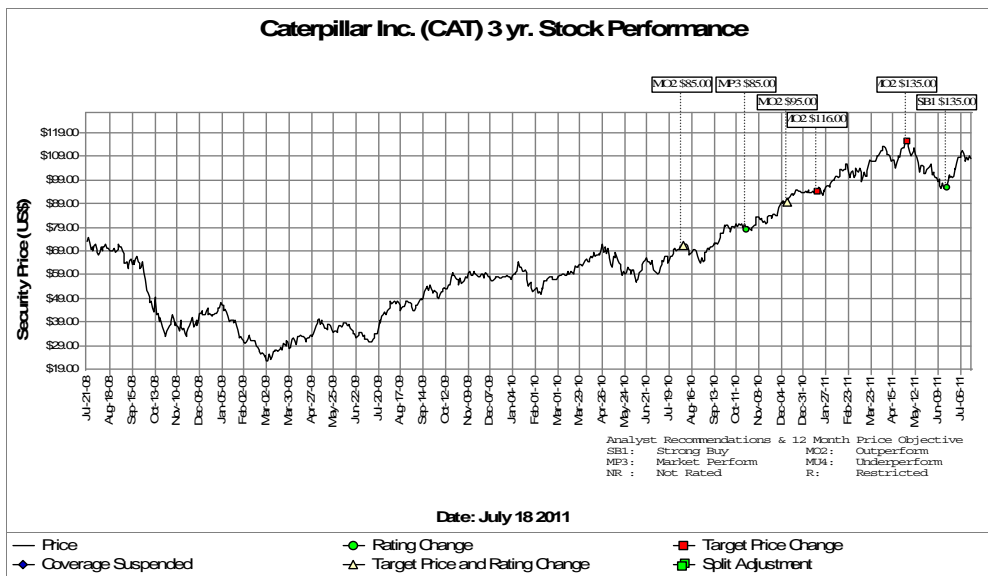
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Company Name	Disclosure
Ritchie Bros. Auctioneers	Raymond James Ltd. makes a market in the securities of Ritchie Bros. Auctioneers.

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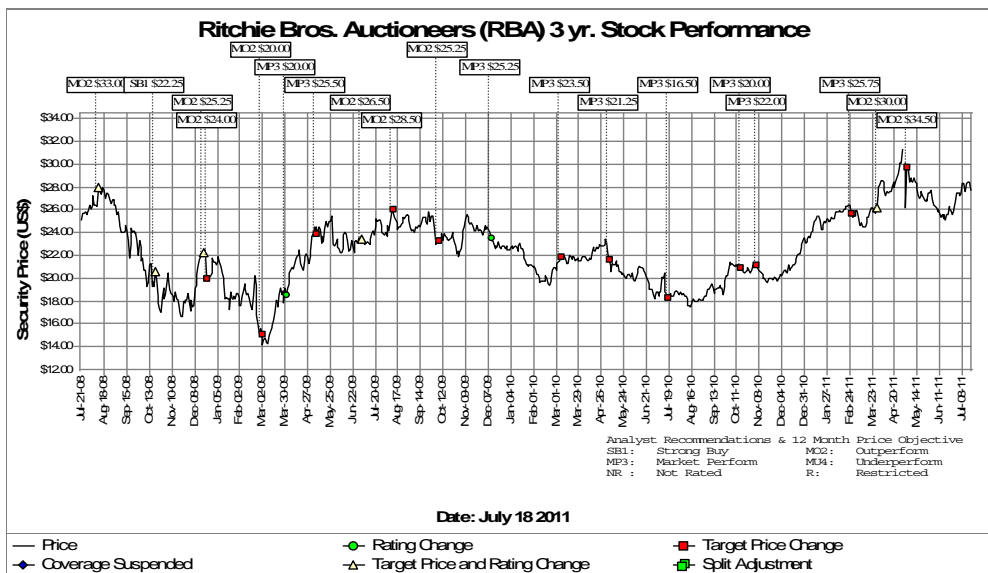
**Valuation Methodology:** The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences.

**Target Prices:** The information below indicates target price and rating changes for the subject companies included in this research.



Update Date	Closing Price	Target Price	Rating
Jun-20-11	95.95	135.00	1
May-02-11	115.41	135.00	2
Jan-17-11	94.14	116.00	2
Dec-11-10	89.67	95.00	2
Oct-22-10	78.33	85.00	3
Aug-04-10	71.12	85.00	2

**Valuation Methodology:** Our valuation methodology for Caterpillar includes peer group multiples and historical trading range comparisons.



Update Date	Closing Price	Target Price	Rating
May-03-11	29.72	34.50	2
Mar-29-11	26.17	30.00	2
Feb-24-11	25.74	25.75	3
Nov-03-10	21.14	22.00	3
Oct-14-10	20.90	20.00	3
Jul-16-10	18.29	16.50	3
May-05-10	21.65	21.25	3
Mar-05-10	21.83	23.50	3
Dec-09-09	23.54	25.25	3
Oct-06-09	23.30	25.25	2
Aug-10-09	26.04	28.50	2
Jul-02-09	23.42	26.50	2
May-06-09	23.92	25.50	3
Mar-31-09	18.59	20.00	3
Feb-27-09	15.05	20.00	2
Dec-23-08	19.99	24.00	2
Dec-18-08	22.23	25.25	2
Oct-20-08	20.61	22.25	1

**Valuation Methodology:** We value Ritchie Bros. on a comparative basis to historical P/E multiples.

**Risk Factors**

**General Risk Factors:** Following are some general risk factors that pertain to the projected target prices included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

**Risks - Caterpillar Inc.**

a) CAT's future growth is sensitive to economic volatility in the global economy and the general outlook for economic activity; b) our financial forecasts assume CAT will continue to be able to identify appropriate markets to expand. Failure to do so would likely have negative implications on the company's earnings; c) our financial forecasts also assume CAT will be able to successfully integrate acquired businesses. Failure to realize potential business synergies may negatively impact CAT's earnings; d) CAT is exposed to various political and economic risks associated with the company's global operations. As such, imposition of government regulations or policies in any one of CAT's operating jurisdictions may negatively impact its business; e) currency fluctuations, particularly increases and decreases in the U.S. dollar against other currencies could affect CAT's performance either favourably or adversely; f) CAT's operations are influenced by commodity price fluctuations; and h) interest rate fluctuations may adversely affect demand for the company's product.

**Risks - Ritchie Bros. Auctioneers**

a) Ritchie Bros.' future growth is sensitive to the company's ability to identify and purchase on favourable terms new auction sites and/or appropriate acquisition candidates; b) the company could face increased pressure from indirect competitors with greater financial resources, such as equipment distributors and dealers. New competitors may also enter the fragmented industrial equipment auction market. We believe that Ritchie Bros.' current market share and its unreserved auction process help the company to mitigate the aforementioned risks; c) the business may be adversely or favourably affected by events or conditions in a country; d) fluctuating currency exchange rates may also influence Ritchie Bros.' operations in global markets; e) potential losses from price guarantees and purchases of inventory could have negative implications for the company; and f) interest rate fluctuations may adversely or favourably affect the company's ability to raise capital in the form of fixed or floating rate debt.

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