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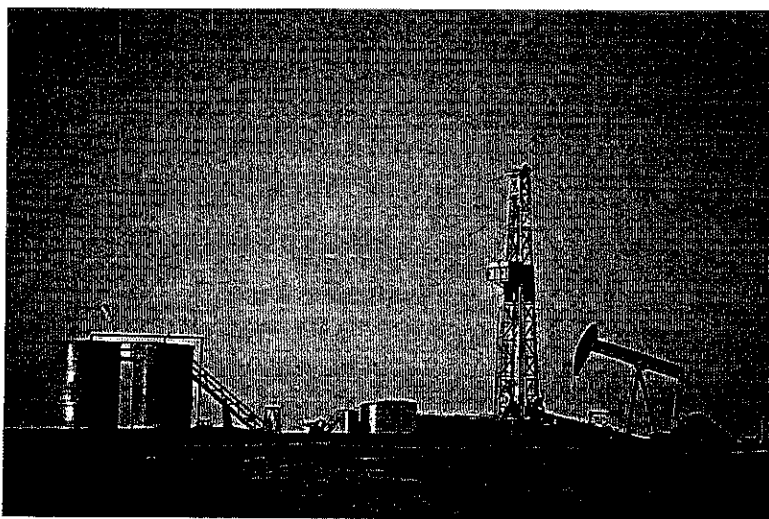
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BUSINESS

Energy Bust Powers Down Heavy-Equipment Sales

Equipment makers like Cummins and Caterpillar are feeling the pain of lower oil production



A crude-oil drilling rig outside Williston, N.D. The energy bust has badly hurt producers and companies supplying them with heavy equipment. *PHOTO: DANIEL ACKER/BLOOMBERG*

By JAMES R. HAGERTY and BOB TITA

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Caterpillar Inc. acknowledged Thursday what Brandon Millican of Malta, Mont., already noticed: It's getting even harder to sell heavy equipment into an economy weighed down by falling oil production.

The Peoria, Ill.-based maker of construction and mining equipment issued lower than expected first-quarter estimates for revenue and profit but left its forecast for 2016 unchanged. Meanwhile, Mr. Millican, who runs construction-related businesses, has resorted to trying to sell three idle Caterpillar generators on Craigslist.

Caterpillar now projects profit in the quarter of 50 cents to 55 cents a share. Excluding restructuring costs, it forecast profit of 65 cents to 70 cents a share. Analysts were expecting 97 cents a share. “The question remains whether this revised guide is adequately conservative,” said Ann Duignan, an analyst for J.P. Morgan Chase.

Mr. Millican spotted an opportunity several years ago when shale-oil production soared in western North Dakota. He bought three Caterpillar generators for roughly \$138,000 each and rented them to oil-production firms needing mobile electric power for their equipment.

Now that oil exploration and production have plunged, Mr. Millican can't find anyone to rent those machines and is trying to sell them on Craigslist. “I'd rather not have them sit around if oil takes five or 10 years to come back,” Mr. Millican said.

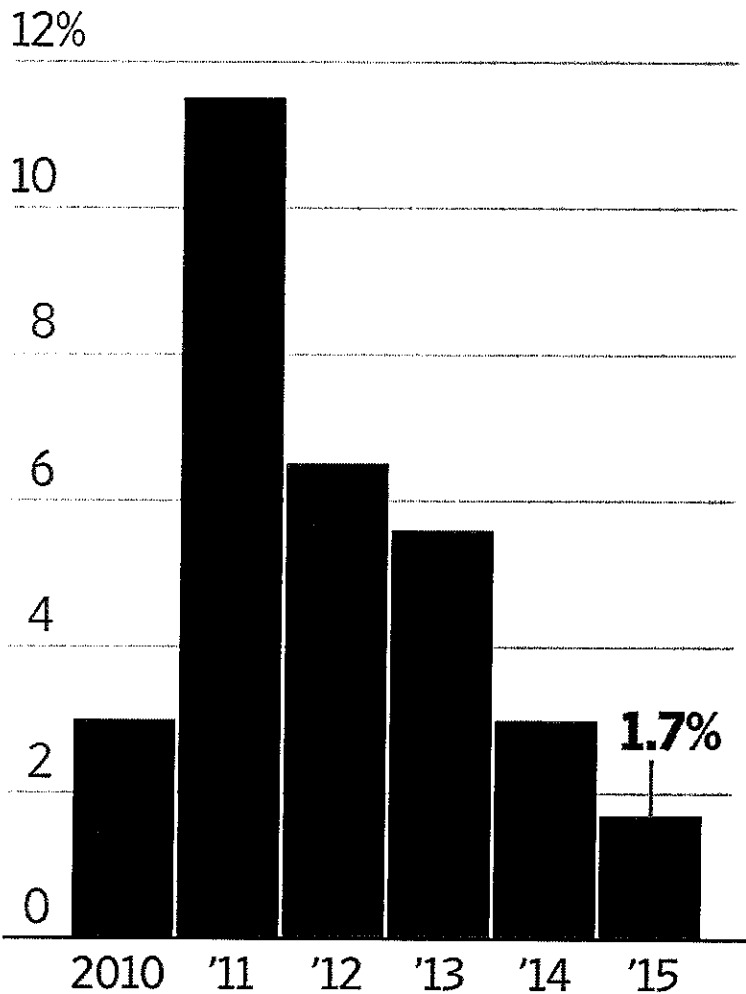
Wary of the boom-and-bust cycle, oil-and-gas producers rent much of their equipment rather than buying. That leaves rental companies holding lots of generators and searching for ways to unload them—which is also drying up sales of new machines for Caterpillar, Cummins Inc. and other companies that manufacture them. The pain being felt by these companies illustrates how the energy bust has rippled far beyond the oil patch and is chilling a large part of the economy.

“There's been a tremendous amount of (used) equipment hitting the market, and there will be a tremendous amount more,” said Dick Davis, president of Depco Power Systems, a Houston-based dealer in new and used generators. In the range of 30 to 300 kilowatts, there probably are more than 10,000 surplus generators available for sale because of the oil bust, estimated Will Perry, chief executive of Worldwide Power Products, another Houston dealer.

“We don't see any relief on the horizon,” said Aaron Jagdfeld, chief executive of Wisconsin-based Generac Holdings Inc., a leading manufacturer of generators. Its sales to the oil and gas sector fell about 45% in 2015, and is expecting it to drop 35% to 40% in 2016. Its overall revenue dropped 10% last year to \$1.3 billion, while net income sank 55% to \$77.7 million, partly because of one-time charges. “Everybody is hoping for the best and bracing for the worst. You've got to let the air come out of the balloon,” Mr. Jagdfeld said.

Making Generators

Change in production of electricity generators in North America



Source: Power Systems Research

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For some, the generator glut spells opportunity. Justin Crownover, a farmer in Sunray, Texas, is finding bargain prices on used generators. Mr. Crownover, whose family farm is about 65 miles north of Amarillo, is using some of those natural gas-fueled generators to power irrigation pumps for fields of corn and sorghum. A used Caterpillar 210-kilowatt generator, roughly the size of Ford F-150 pickup truck, would have cost about \$90,000 two years ago but now can go for as little as \$50,000, he said.

An index of values for used generators of various types compiled by Rouse Services, a data provider in Beverly Hills, Calif., fell 15% through January from its peak in April. That is far sharper than the 6.4% drop in

prices for used construction and warehouse equipment broadly.

Global Power Supply LLC, a generator rental and sales concern based in Santa Barbara, Calif., has dozens of generators in the 75- to 150-kilowatt range that were destined for oil-field use but now aren't needed there, said Mike Wolfe, who heads the firm's generator operations. He said a very lightly used Caterpillar G3306 generator that would have sold for roughly \$150,000 about 18 months ago now might cost roughly \$85,000.

“They will get cheaper and cheaper,” said Eddie Boudreau, owner of Pan American Power, a generator dealer in Covington, La. Some will be sold in the U.S., he said, but most are likely to be exported to Latin America or Asia.

To keep from further depressing used-market prices, Tractor & Equipment Co., the Caterpillar dealer in North Dakota’s Bakken Shale-oil region, has been shifting some generators and other rental equipment to dealers elsewhere and holding others at its Williston, N.D., rental lot. Demand for rented Caterpillar generators in Williston fell by about 40% last year, the dealer said.

In addition to supplying electric power to equipment in remote places, generators are increasingly located in hospitals, commercial buildings, factories and homes for backup power. Most of those used in the oil fields are too large for residential needs, though, and may need to be reconfigured or rebuilt for other purposes to meet emissions standards, which lowers resale value.

Still, United Rentals Inc., the biggest U.S. equipment-rental company, is redeploying generators from the oil fields to petrochemical plants, commercial buildings, golf tournaments and outdoor concerts, said Paul McDonnell, a senior vice president.

Dewey Bailey, an area sales manager for industrial power at Tractor & Equipment in Williston, said he is holding on to many of his rental generators in anticipation of an eventual recovery. “There’s a lot of wells left to be completed and when that happens there will be demand” for power, he said.

—Joshua Jamerson contributed to this article.

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