GREAT AMERICAN GROUP

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Monitor

Automotive

VOLUME 317

FAR FROM A MODEL YEAR

SALES ON THE SKIDS

Overall vehicle sales continued their descent in the latter half of 2019 amid weakened demand for new sedans

USED MARKET STRONG

The growing disparity between new and used vehicle average transaction prices continued to drive customers toward the used vehicle market

CHINA IN DOWNTURN

The world's largest auto market reported its second consecutive year of sales declines amid trade tensions and cuts to electric vehicle subsidies

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Deals are a moving target. A constantly shifting mix of people, numbers and timing. We're here to simplify this process for you. Our experts are dedicated to tracking down and flushing out the values you need even on the most complex deals, so you can leverage our hard-won knowledge to close the deal.

Trend Tracker

	OEM Parts	Aftermarket Replacement Parts and Accessories	Tires
NOLVs	Decreasing ▼	Decreasing ▼	Consistent —
Sales Trends	Decreasing ▼	Increasing ▲	Mixed ▲▼
Gross Margin	Mixed ▲▼	Decreasing ▼	Consistent —
Inventory	Mixed ▲▼	Decreasing ▼	Mixed ▲▼

OEM PARTS

NOLVs for OEM parts decreased in the latter half of 2019, down as much as 10%, as a result of sales declines and subsequent increases in supply, as well as margin pressure.

Sales also decreased up to 15%. GA notes that stronger sales occurred for companies involved in trucks or the heavy-duty sector, as well as those companies that launched new programs tied to relationships with specific regions or individual OEM plants.

Gross margins for OEM parts were mixed in the second half of 2019, fluctuating up to 3%, largely due to product mix or absorption of fixed overhead costs relative to sales levels.

Inventory levels were also mixed for the remainder of 2019, primarily due to new program launches. Any decreases in inventory levels were attributed to program phase-outs and plant closures.

AFTERMARKET REPLACEMENT PARTS AND ACCESSORIES

NOLVs for aftermarket replacement parts and accessories decreased up to 5% in the latter half of 2019, driven by declines in gross margins as a result of changes in tariffs imposed on overseas suppliers.

Aftermarket sales modestly increased in the second half of 2019, up multiple percentage points for many companies, primarily due to steady or growing demand of industry products, as well as price increases in the wake of changes in tariffs. GA notes that the growing average vehicle age in the U.S. will continue to benefit the do-it-yourself market in the next several years.

Gross margins for aftermarket replacement parts and accessories slightly decreased in the latter half of 2019, as a result of changes in tariffs and subsequent increases in costs.

Aftermarket inventory levels decreased for most companies in the second half of 2019 due to an uptick in demand for industry products, as well as a more normalized supply chain compared to inventory levels at the end of 2018, which were higher in anticipation of increased costs related to tariffs.

Trend Tracker

TIRES

GA observed that NOLVs for tire manufacturers and distributors remained consistent in the second half of 2019, with any modest fluctuations due to changes in product mix.

Sales of tires were mixed for the remainder of the year, with overall demand and pricing up slightly. However, some companies were impacted by supply chain changes and a milder winter season at the end of 2019.

GA observed that gross margins remained relatively consistent for the latter half of the year.

Inventory levels for tires were mixed, with multiple companies reporting fluctuations related to company-specific activities such as changes in vendors or expansion.

Overview

The cyclical downturn of the U.S. automotive industry continued in the latter half of 2019, with most major automakers struggling with sedan sales as the growing disparity between new and used vehicle average transaction prices further drove customers to choose used rides.

Rising auto prices continued to temper demand for new vehicles for the remainder of 2019, with many consumers seeking deals on gently used off-lease cars and trucks. According to *Edmunds*, the average transaction price of new vehicles reached over $37,200 in the third quarter of 2019, compared to the $22,300 average price of used vehicles. The growing shift of consumer preference away from new sedans and compact cars led automakers to take a hard look at product lines and shed poor performers.

Although strong demand for trucks was a bright spot in the industry, ever-waning car sales and continued increases in manufacturing costs related to tariffs tempered the year's total new vehicle sales to a seasonally adjusted annual rate of 17.1 million units, down 1.2% from 2018. Moreover, the record number of off-lease vehicles returning to dealerships in the final half of 2019 raised overall supply, which drove down prices for used cars and trucks, subsequently dampening new vehicle sales among major automakers.

The continued slowdown in overall new vehicle sales growth delivered a primarily negative impact among multiple segments of the automotive market, as demand for OEM parts and aftermarket accessories is directly correlated with the number of new vehicles on the road. Meanwhile, demand for aftermarket replacement parts was steady throughout 2019, given the aging fleet of vehicles in the U.S. and the historically high average vehicle age of 11.8 years, according to the U.S. Department of Transportation. However, gains were partially tempered by rising manufacturing costs related to tariffs, as ongoing trade conflicts continued throughout the year.

With an influx of used vehicles on the market placing more consumers in affordable rides, cumulative travel on all roads grew 0.9% in November 2019 versus the prior year, totaling nearly 3.0 trillion miles, according to the Federal Highway Administration. As travel and average vehicle age increase, so do vehicle wear and demand for aftermarket goods.

New Vehicle Sales

With the U.S. auto industry continuing its cyclical descent in the latter half of 2019, the growing influx of nearly new off-lease vehicles flooding the used car market has continued to weaken sales of new vehicles. According to *Automotive News*, the industry sold a total of 1.5 million new light vehicles in December 2019, marking a 5.8% decline in overall sales versus the same period in the prior year. The decrease was driven by weaker car and fleet volume sales as well as a continued trend of rising vehicle prices. Overall car sales totaled 394,718 units in December 2019, down 12.5% versus the same period in 2018.

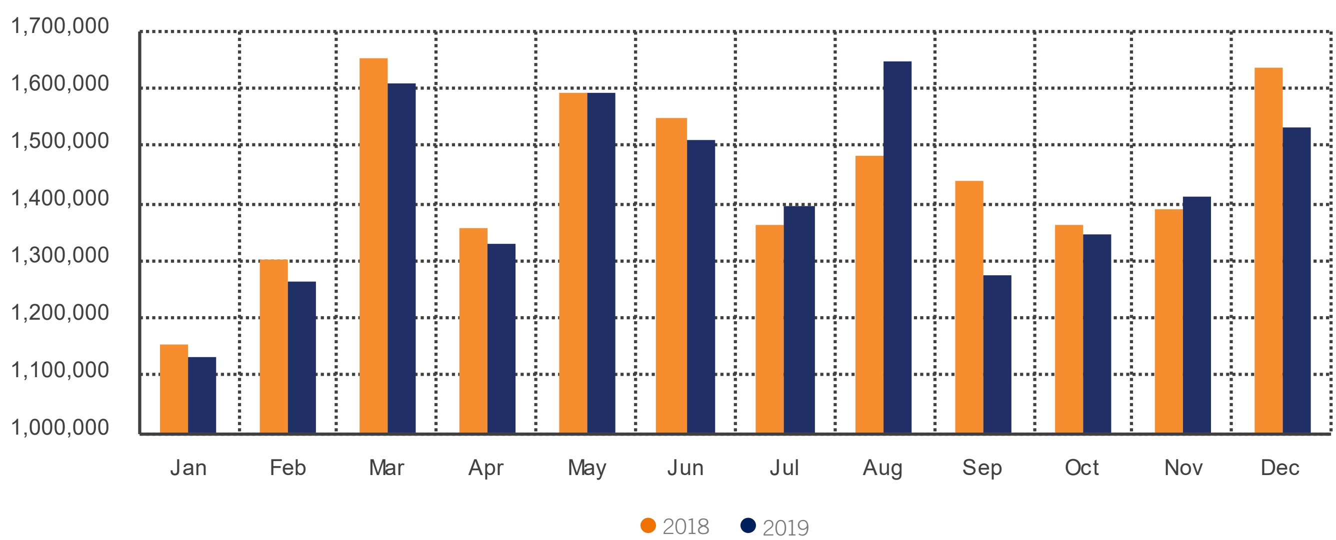
Sales declines were partially offset by bolstered demand for trucks, crossovers, and SUVs. These three vehicle segments collectively represented an estimated 72% of total new vehicle sales in 2019, up from 69% in the prior year, given the growing popularity of these vehicles and stringent EPA regulations surrounding fleet emissions. Nonetheless, the allure of the growing used vehicle market has negatively impacted even the best-selling new vehicle segment. Light truck sales totaled 1,139,377 units in December 2019, reflecting a 3.2% decline versus the same period in 2018.

The continued shift in consumer preference toward trucks, crossovers, and SUVs kept many automakers diligently focused on research and development within the light truck segment in the latter half of 2019. Inevitably, the rising popularity of this segment and the continued trend of poor demand for cars led many manufacturers to re-examine their portfolios and end production of ill-performing sedan models.

As a result, the U.S. market is expected to see a widening void in its manufacturing plan without sedans, which will cater to automakers in Japan, South Korea, and China. However, the developments and ramifications of ongoing trade conflicts remain to be seen, as increased costs related to tariffs could have a substantial impact on vehicle imports to the U.S.

Meanwhile, according to *Inside EVs*, automakers reported that 329,528 electric vehicles were sold in 2019, a decrease of 9% versus 2018. The segment was particularly tarnished by a 26% decline in year-over-year sales in the fourth quarter of 2019. However, the declines were mostly attributed to the fact that 2018 was an extremely strong year for electric vehicles, due to the ramp-up of Tesla's Model 3 and federal tax credits for many electric cars. Electric vehicles only captured a 2.2% share of the U.S. auto market in 2019, as battery technology and costs continue to dampen profitability for the segment.

1 U.S. Auto Sales (including General Motors)
12 Months Ended December 2018 versus 2019 (in Units Sold)



Domestic Manufacturers

Domestic manufacturers continued to struggle with overall sales performance as weakened demand for sedans tempered profitability throughout 2019.

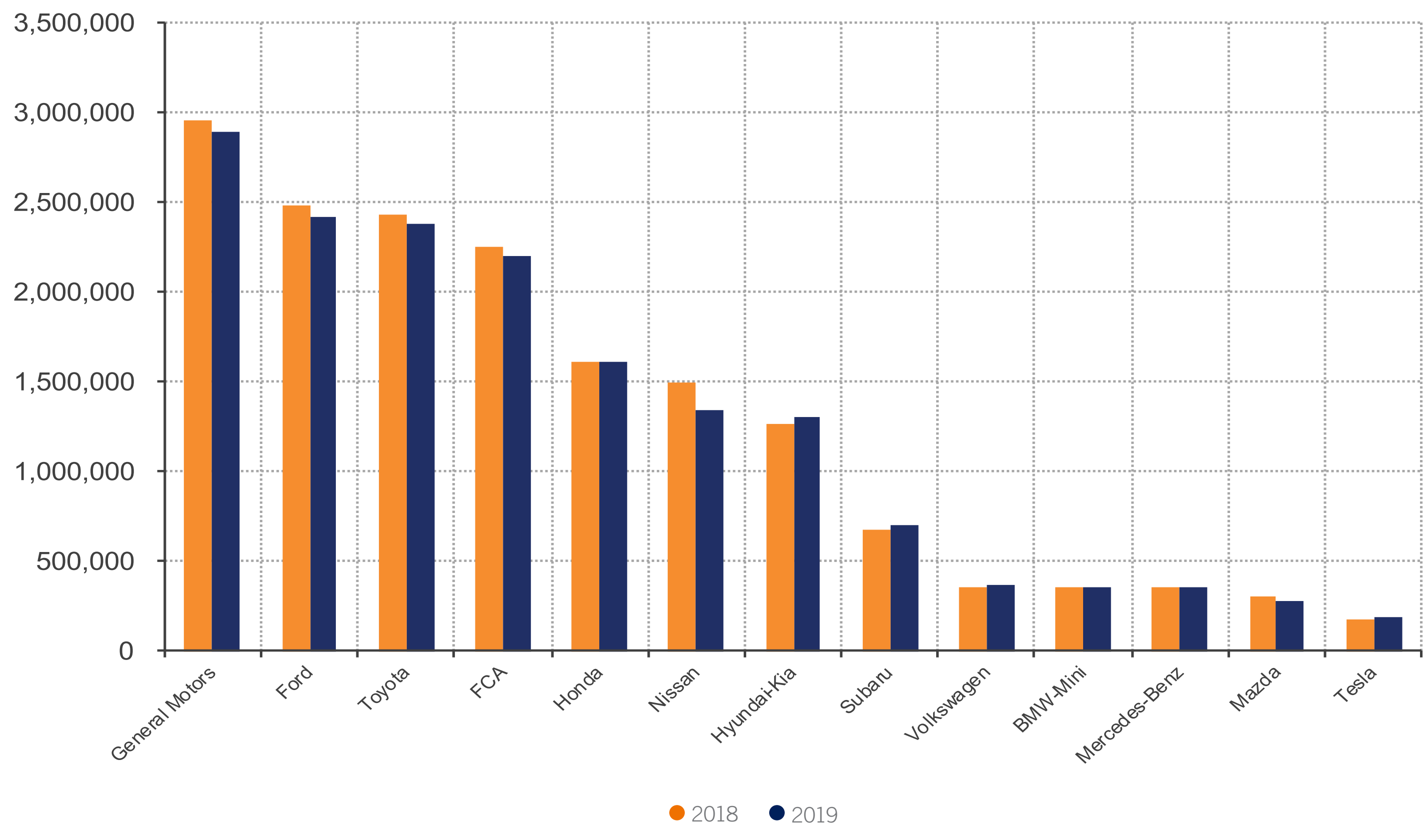
General Motors reported a total of 735,909 units sold in the fourth quarter of 2019, down 6.3% versus the same quarter in 2018. In addition to poor sedan sales, the decline was driven by interrupted production due to a 40-day United Auto Workers strike. The automaker's sales for the year declined 2.3% versus 2018, which was partially offset by success among General Motors' crossovers, which grew in sales by 12.7% in 2019 versus the prior year and accounted for over 1.2 million vehicles sold. The automaker's strongest crossover model, the Chevrolet Trax, enjoyed sales gains of 29.9% in 2019 versus 2018.

Toyota Motor North America reported a total of 207,373 vehicles sold in December 2019, down 6.1% from the same period in the prior year. Sales for the year decreased 2.3% versus 2018. The overall decline was partially offset by steady demand for the automaker's popular RAV4 line.

Ford reported 601,862 total units sold in the fourth quarter of 2019, down 1.3% versus the same quarter in 2018, with car sales down 41.0%. The decline was partially offset by strong demand for trucks, with sales up 15.9% in Q4 2019 versus 2018. Overall, sales for 2019 were down 3.0% versus 2018.

FCA US LLC (Fiat Chrysler Automobiles) fared similarly, with 542,519 vehicles sold in Q4 2019, down 2.0% versus the same period in the prior year. The popularity of the company's Ram Truck and Jeep brands helped partially offset declines.

2 U.S. Light Vehicle Retail Sales
Full Year 2018 versus 2019 (in Units Sold)



Global Market

CHINA

While China remained the world's largest new automobile market in 2019, the country shared in the global struggle of poor new vehicle sales. A total of 25.8 million vehicles were sold in China in 2019, down 8.2% versus the prior year and marking the second consecutive year of sales declines for the nation, according to the China Association of Automobile Manufacturers.

Once a reliable source of growth for automakers, China's auto market has been on the downturn amid trade tensions with the U.S. and increasingly strict emissions standards, which were introduced to many areas of the country in 2019.

China is currently entering a time of structural adjustments, in which manufacturers of low-end vehicles and budget cars are gradually being driven out of the market. The country intends to spearhead the world's green automotive production, as environmental regulations fuel development of new technology and other environmentally conscious alternatives. However, the Chinese government's decision to slash green manufacturing subsidies by 75% in 2019 proved to be too heavy-handed for many of the country's electric vehicle makers, resulting in a sales decline of 4% for electric vehicles in 2019 versus the prior year.

Nonetheless, the country's regulators are attempting to bolster confidence among OEMs, promising that the remaining subsidies for new-energy vehicles will not be significantly cut in 2020, despite Beijing's previous plans to phase them out entirely by the end of 2020.

Despite these challenges in China's electric vehicle market, some automakers have pressed on in the region. Tesla began delivering China-made Model 3 sedans in December 2019, with plans to manufacture the Model Y compact SUV at the automaker's Shanghai production plant in the coming year.

EUROPEAN UNION

In December 2019, passenger car demand in the European Union increased for the fourth month in a row, marking the highest December total on record to date. The growth was partially attributed to a low base of comparison, as new vehicle registrations fell by 8.4% during the same period in 2018. However, specific market changes also contributed to this exceptional growth.

Total vehicle sales for France and Sweden surged 28% and 109%, respectively, in December 2019 versus the same period in the prior year, as both countries announced significant changes to the bonus-malus component of CO2-based taxation for 2020. As a result, all European Union countries reported solid growth rates in December, according to the European Automobile Manufacturers' Association.

Overall, new vehicle registrations increased by 1.2% across the region in 2019, reaching more than 15.3 million units in total and marking the sixth consecutive year of growth. While the year began on a weak note following the impact of the introduction of the WLTP test in September 2018, the fourth quarter of 2019 bolstered full-year sales performance across the European Union.

Experience

GA has worked with and appraised numerous companies within the automotive industry. While our clients remain confidential, they include companies throughout the automotive supply chain, including manufacturers, importers, distributors, and retailers of aftermarket, performance, replacement, and OEM parts and accessories.

GA's appraisal experience includes the following sampling:

- A remanufacturer and distributor of alternators and starters for imported and domestic vehicles with over $170 million in sales and over $60 million in inventory, including $20 million of core inventory.
- An Internet retailer of aftermarket replacement automotive parts, including auto body and engine parts, as well as accessories, to customers worldwide. The company's $50 million of inventory includes approximately 1.8 million types of aftermarket auto parts for nearly all makes and models of domestic and foreign cars and trucks.
- OEM parts suppliers to the "big three" U.S. automakers, which includes manufacturers of transmission, interior, wheel, and accessory products.
- A full-line automotive core supplier, scrap processor, and a processor of catalytic converters.
- An importer and wholesaler of specialized aftermarket automotive wheels and parts, including wheels for the U.S. auto market available in a variety of specifications.
- A designer, manufacturer, and distributor of specialty products for the performance automotive aftermarket, including fuel, air, and internal engine management systems, which are sold to retailers and distributors.
- A retailer and wholesaler of aftermarket auto parts, including engine, wiper, undercar, heat, and cooling parts and accessories, as well as electrical supplies, oil, filters, tools, equipment, paint, chemicals, and more, all sold under well-known national brands.
- A processor and distributor of precision automotive components designed for various automotive assemblies, such as transfer cases, transmissions, and air conditioners, selling to Tier 1 and Tier 2 suppliers.
- A U.S.-based producer and recycler of automotive and industrial lead acid batteries, with locations throughout North America and the world, an inventory of approximately $200 million, and sales of $1.2 billion.
- A distributor of tires, wheels, and assemblies for utility trailers, recreational vehicles, livestock trailers, mobile homes, and other applications.

GA has also liquidated a number of manufacturers and distributors of OEM and aftermarket parts, including Midas Corporation, Trak Auto, Smittybilt Outland Automotive Group, Inc., and American Products Company, Inc. In addition to our vast liquidation and appraisal experience, GA utilizes input from our staff of automotive experts, including Gordon Heidacker, who has over 40 years of automotive industry experience with OEM, Tier 1, and aftermarket expertise in product design and launch, negotiation and management of external key contracts and relationships with OEMs, mergers and acquisitions, strategy, and post-merger integration.

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