

Monitor

Automotive

VOLUME
325



VIRUS IN THE DRIVER SEAT

SALES REMAIN DOWN

Overall new vehicle sales were down over 34% in Q2 2020 due to supply issues and reduced demand amid the coronavirus pandemic

SLOW RECOVERY

While the auto industry struggled with factory shutdowns in the early months of the pandemic, production levels are slowly recovering from April lows

USED MARKET SURGES

Historically low interest rates are pushing more consumers to the used market, causing a spike in the average used vehicle price

In This Issue

MONITOR AUTOMOTIVE

[BRILEYFIN.COM](https://brileyfin.com)

SEPTEMBER 2020

800-454-7328

VOLUME

325

03	Trend Tracker	08	Industry Trends
05	Overview	09	Experience
06	New Vehicle Sales	10	Appraisal & Valuation Team
07	Domestic Manufacturers	11	About B. Riley Advisory Services



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	Aftermarket Accessories	Tires
NOLVs	Decreasing ▼	Decreasing ▼	Decreasing ▼	Consistent —
Sales Trends	Decreasing ▼	Increasing ▲	Increasing ▲	Increasing ▲
Gross Margin	Decreasing ▼	Increasing ▲	Decreasing ▼	Consistent —
Inventory	Mixed ◆	Decreasing ▼	Mixed ◆	Mixed ◆

OEM PARTS

NOLVs for OEM parts decreased in the first half of 2020, due to lower margins and sales volumes, as well as unfavorable changes in inventory mix.

Sales decreased up to 20% year over year, with declines of 40% to 50% in the months of March and April, due to poor market conditions and facility shutdowns related to the COVID-19 pandemic.

Gross margins for OEM parts decreased slightly in the first half of 2020, fluctuating up to two percentage points, due to price concessions and higher overhead costs related to lower sales volumes.

Inventory levels were mixed, fluctuating 10% to 20%, depending on timing. Inventory levels initially increased in March and April due to lower demand amid the pandemic, but fell in line with demand in the following months.

AFTERMARKET REPLACEMENT PARTS

NOLVs for aftermarket replacement parts decreased two to five percentage points in the first half of 2020, driven by lower demand and unfavorable shifts in inventory mix, with increased levels of lower-recovery excess and cores inventory.

Sales of aftermarket replacement parts decreased for many companies early in 2020, due to COVID-19 pandemic conditions. Declines varied by market, with some of the larger decreases seen by suppliers to the construction industry as well as the oil and gas sector. Other companies, such as those serving the passenger car segment, experienced more moderate sales declines. However, in more recent months, many companies have seen sales rebound as more consumers perform maintenance and repairs of their vehicles during the pandemic.

Gross margins for aftermarket replacement parts increased in the first half of 2020, as a result of many companies successfully passing along price increases related to tariffs, as well as changes in sales mix.

Inventory levels decreased from 5% to 20% for most companies, primarily due to efforts to better manage inventory levels in line with demand and control excess inventory levels.

Trend Tracker

AFTERMARKET ACCESSORIES

NOLVs for aftermarket accessories decreased two to eight percentage points in the first half of 2020, driven by lower margins related to tariffs and lower customer demand.

Sales of aftermarket accessories were mixed for many companies early in the year, with fluctuations driven by market conditions for certain categories and customers delaying purchases. However, sales have been increasing in more recent months as a result of additional discretionary income among customers due to economic stimulus payments.

Gross margins decreased up to five percentage points, primarily due to additional tariffs imposed on companies and the inability to pass along the entire increase in costs.

Inventory levels for aftermarket accessories were mixed, fluctuating up to 10%, due to cash flow considerations and efforts to maintain a proper inventory mix.

Generally, companies attempted to lower inventory levels in order to better manage excess and slow-moving inventory.

TIRES

NOLVs for tire manufacturers and distributors remained relatively consistent in the first half of 2020.

Sales of tires across the industry increased modestly in the first half of 2020, despite the negative impact of the pandemic on the auto industry, with certain companies seeing increased sales due to added market share, acquisition of larger customers from competitors, or expansion into new regions.

Gross margins remained relatively consistent for most companies, with minor fluctuations from changes in sales mix.

Inventory levels for tires were mixed thus far in 2020, fluctuating up to 5%, with companies struggling in recent months due to tight supply amid production shutdowns.



Overview

The U.S. automotive industry has been reeling from the negative impact of the COVID-19 pandemic in the first half of 2020, with major automakers struggling with overall new vehicle sales due to reduced demand, supply issues, and extended production disruptions.

The industry began to see the full force of the pandemic in the second quarter of 2020, with new vehicle sales down an estimated 34% versus the same period in 2019, according to Edmunds. Local and state stay-at-home orders, automotive plant shutdowns prompted by the spread of the virus, and program delays across many OEMs served as major drivers of poor sales performance from April through June.

With new vehicle inventory levels low due to pandemic-related production and supply issues, as well as historically low interest rates, an ever-growing number of consumers have turned to the used vehicle market in search of savings opportunities, which has only led to a spike in used car prices.

As demand for OEM parts and aftermarket accessories is directly correlated with the number of new vehicles on the road, poor new vehicle sales numbers negatively impacted multiple segments of the automotive market.

However, given the historically high average vehicle age of 11.8 years and the growing trend of consumers holding onto their current vehicles during financially uncertain times, demand for aftermarket replacement parts is expected to increase as much as 50%, according to industry experts.

With an increasing number of people working from home and avoiding unnecessary travel amid the pandemic, cumulative travel on all roads decreased 16.6% in June 2020 versus the prior year, totaling nearly 1.3 trillion miles, according to the Federal Highway Administration. As travel decreases, so does vehicle wear and demand for certain aftermarket goods. However, as the pandemic subsides and vehicle use increases with pent-up travel demand, this trend is expected to reverse.



New Vehicle Sales

Major automakers reported sharp declines in new vehicle sales in the second quarter of 2020, as recession-level discounts and financing options were unable to offset the negative impact of extensive plant and dealership shutdowns related to the COVID-19 pandemic. According to Automotive News, the industry sold roughly 7.7 million new light vehicles year to date in July 2020, a 22.2% decline versus year-to-date sales for the same period in 2019.

In more recent months, new vehicle sales improved across several automakers as economic stimulus payments spurred many consumers to seek new cars and trucks. However, sales remained well below 2019 levels due to tight inventory levels, growing unemployment claims, and general financial uncertainty surrounding the pandemic. Nonetheless, social distancing and stay-at-home measures have ushered in a new era of web-based vehicle sales, bolstering revenue for online vendors such as Carvana, Vroom, and CarMax, which have spent billions building their purchasing platforms, digital networks, and inventory for this unprecedented period.

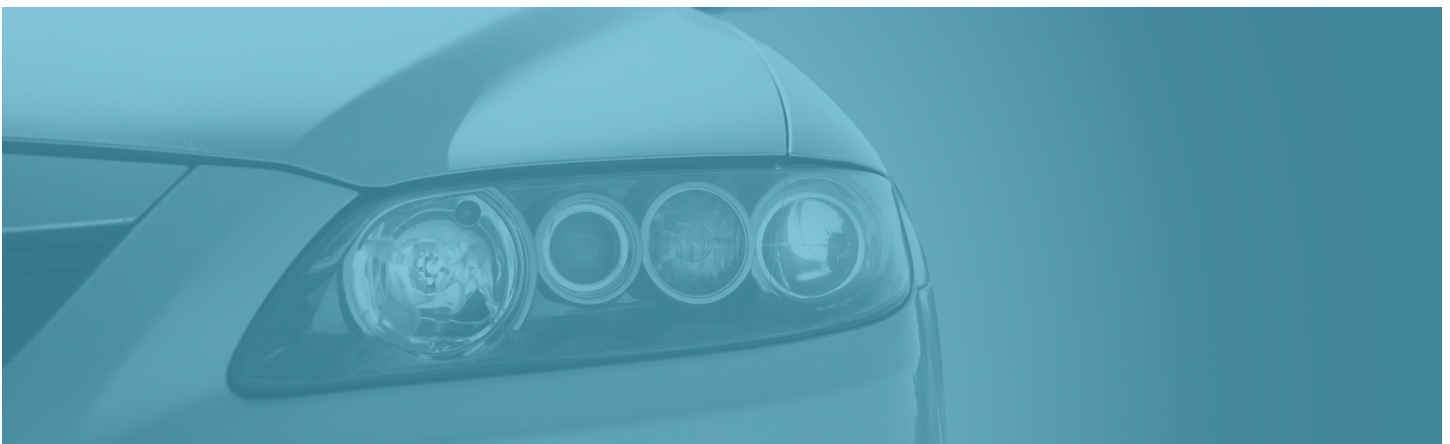
Still, industry experts remain guarded on sales outlooks. According to IHS Markit, new vehicle sales will see a year-over-year volume decline of 25% to 30% in 2020, a projection that will heavily depend on the severity of the pandemic and any threat to sales from increased cases of COVID-19, as witnessed in several states in recent months.

Additionally, new vehicle sales have been tempered by the rental fleet liquidating current vehicles and not ordering new automobiles in 2020, as rental fleet sales represent approximately 10% of the new vehicle market, according to industry experts.

Moreover, the expectedly large increase in off-lease vehicles entering the market through 2021 may affect residual values in the long term, reducing accessibility to new vehicle leasing for many consumers.

New vehicle sales have also continued to be tempered by more consumers seeking deals in the used market. However, despite the growing number of off-lease vehicles flooding the market, historically low interest rates have prompted a surge in consumers rushing to find used cars and trucks, which has led to a spike in used vehicle prices; the average listing price of used vehicles reached \$21,558 in July, an increase of over \$700 from the average in June.

Meanwhile, according to BloombergNEF, U.S. automakers are expected to pull back on electric vehicle (“EV”) production as efforts are refocused on more profitable product segments such as non-electric SUVs and trucks. As a result, electric vehicles are projected to shrink to just 1.7% of the U.S. auto market through 2021.



Domestic Manufacturers

Domestic manufacturers struggled in the first half of 2020 as the COVID-19 pandemic drove down demand for new vehicles and led the industry to a standstill with extensive factory shutdowns and OEM program delays.

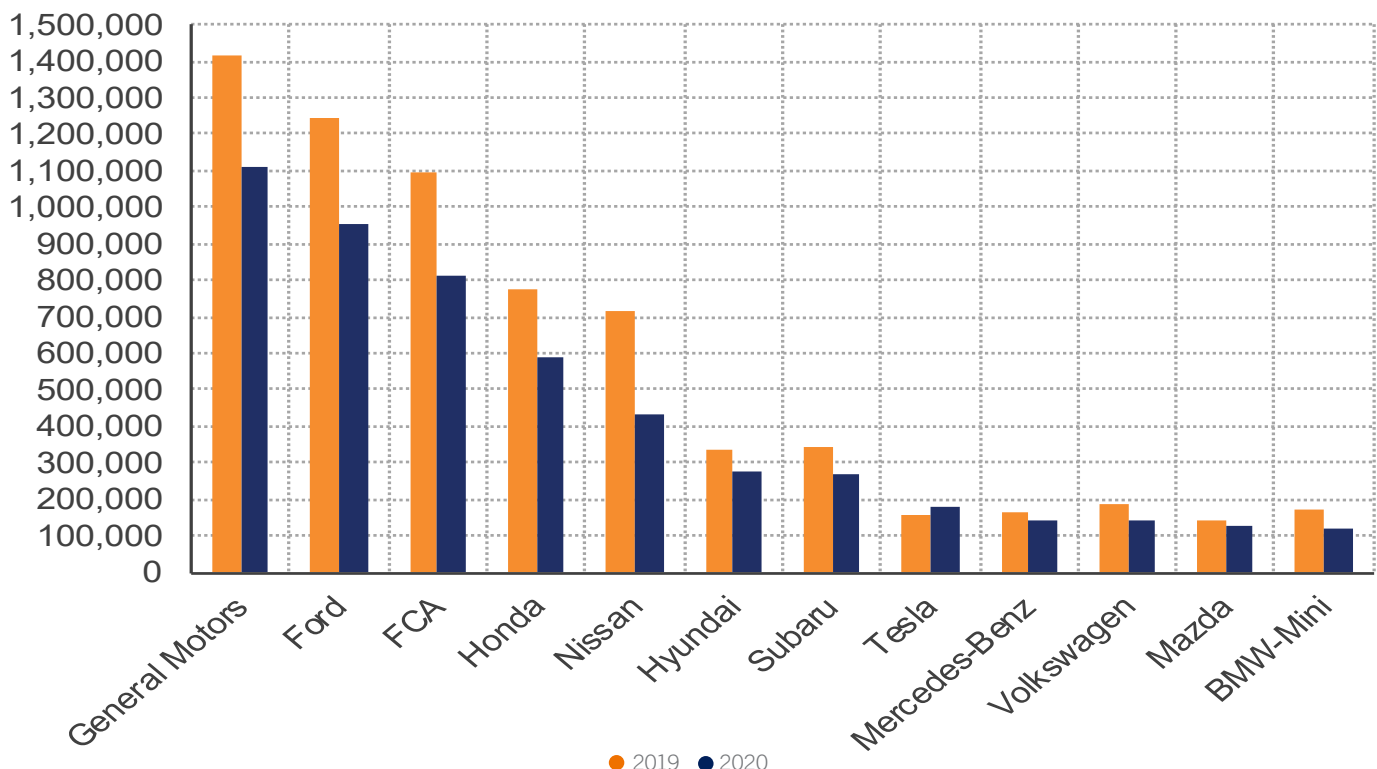
General Motors (“GM”) reported a total of 492,489 units sold in the second quarter of 2020, down 34.0% versus the same quarter in 2019. While the automaker experienced significant declines in overall sales due to production and supply issues related to the coronavirus outbreak, sales of full-size pickup trucks saw the least impact. GM expects its inventory to improve in the coming months as the automaker’s factories slowly return to pre-pandemic operating levels. Additionally, the majority of GM’s plants continued to operate during the industry’s traditional two-week summer shutdown to help replenish strained retail channels.

Ford reported 433,869 total units sold in the second quarter of 2020, down 33.3% versus the same quarter in 2019, with sales for cars, SUVs, and trucks down 59.5%, 29.9%, and 26.6%, respectively. Ford and its dealer network partly mitigated sales losses by making a rapid shift to online and remote sales channels in the second quarter.

FCA US LLC (Fiat Chrysler Automobiles) fared similarly, with 367,086 vehicles sold in Q2 2020, down 39.0% versus the same period in the prior year. FCA US LLC unveiled a new Online Retailing Experience platform, which allowed retail customers to complete the entire new vehicle purchasing process via the automaker’s various brand websites.

Toyota Motor North America has not yet officially released sales for Q2 2020. However, according to Reuters, Toyota’s U.S. sales fell nearly 23% in August versus the same month in 2019, marking five consecutive months of sales declines.

1 U.S. Light Vehicle Retail Sales by Manufacturer Year-to-Date June 2020 versus 2019 (in Units Sold)



Industry Trends

As with numerous other industries, the automotive sector has been significantly impacted by the effects of the coronavirus outbreak. While the full impact of the pandemic remains to be seen, automakers have contended with several unprecedented challenges thus far in 2020.

In late March, after mounting pressure from the United Auto Workers Union and plant closures from Honda's U.S. operations, Detroit's major automakers fully halted production. At that time, Ford also chose to join many European automakers and close down its assembly operations throughout Europe amid the growing coronavirus outbreak. Days later, GM and Ford were cleared by the U.S. administration to transition a portion of their operations to manufacturing ventilators for the growing shortage of medical equipment among ailing COVID-19 patients.

In late May, GM, Ford, and FCA US LLC finally began a phased restart to their manufacturing and assembly operations in the U.S. However, Ford had to briefly halt assembly at its Chicago facilities after two workers tested positive for COVID-19, despite on-site temperature checks and other screening processes. By the second week of June, Ford was among several automakers to see production meet internal targeted levels.

Nonetheless, the cumulative effects of the pandemic have dramatically impacted the forecast for future light vehicle sales, both in the U.S. and abroad. According to IHS Markit, new light vehicle sales in the U.S. are projected to total 13.6 million units in 2020, a 20.3% decrease from the original January forecast of 16.8 million units.

New car deliveries are expected to reach 3.2 million units for the year, a 29.0% drop from the January projection of 4.5 million units, while light truck deliveries are expected to total 10.4 million units, a 16.0% decline from the original forecast of 12.3 million units.

As a result, IHS Markit reports that total new vehicle deliveries will not likely reach the 16-million-unit mark until 2024.

Similarly, production levels have been significantly tempered by the pandemic, with previous forecasts down globally. Light vehicle production in North America is projected to total 12.8 million units in 2020, down 22.6% from the original forecast in February. European light vehicle production will fare similarly at 15.9 million units, a 23.1% decline from original projections. China is expected to see the least impact to production, down 7.0% to total 21.7 million units for the year.

The pandemic has forced other aspects of the industry to shift and adapt, including traditional timing for several major annual events. The 2020 Los Angeles Auto Show, one of the industry's largest international exhibitions, was postponed from its usual November-December dates until May 21, 2021 due to ongoing public health concerns in large social gatherings. The North American International Auto Show in Detroit was rescheduled for June 11, 2021, while the Geneva International Motor Show in March was canceled altogether. While organizers have set new dates for many events, all major social activities remain tentative under current uncertainties surrounding the pandemic.

Nonetheless, vehicle sales in August, a month typically marked by strong sales, demonstrated the industry's ongoing recovery in 2020, albeit a slow one. According to ALG, Inc., overall U.S. auto sales declined 11% in August versus the same month in 2019, whereas sales had fallen more than 15% in July 2020 versus the prior year. While most dealerships have currently continued to struggle with limited inventory, particularly for popular segments such as trucks, increased production over the summer season is expected to set the industry up for success during the upcoming holiday season. With attractive interest rates and potential incentives, many automakers remain cautiously optimistic in 2020.

Experience

BR 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.

BR'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.

BR 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, BR utilizes input from our staff of automotive experts, including Gordon Heidacker, who has over 39 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.

Appraisal & Valuation Team

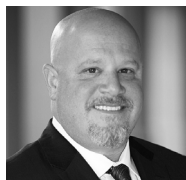
BUSINESS DEVELOPMENT



Bill Soncini
National Marketing Manager
Managing Director
Midwest Region
(773) 495-4534
bsoncini@brileyfin.com



Jennie Kim
Managing Director
Western Region
(818) 746-9370
jkim@brileyfin.com



David Seiden
Managing Director
Southeast/Southwest Region
(404) 242-0683
dseiden@brileyfin.com



Akilah Moore
Business Development Associate
Midwest Region
(312) 777-7956
amoore@brileyfin.com



Gordon Heidacker
Managing Director
Automotive Sector Group Head
(248) 808-3269
gheidacker@brileyfin.com



Ryan Mulcunry
Managing Director
Northeast Region
(617) 692-8310
rmulcunry@brileyfin.com



Stephen Shelton
Managing Director
New York Metro/Mid-Atlantic Region
(203) 524-3271
sshelton@brileyfin.com

OPERATIONS

Chad P. Yutka, ASA
Senior Managing Director
National Practice Leader
(312) 909-6078
cyutka@brileyfin.com

Kristi Faherty
Managing Director
(781) 429-4060
kfaherty@brileyfin.com

Eric Campion
Senior Project Manager
(312) 777-7944
ecampion@brileyfin.com

Thomas Mitchell
Project Manager
(818) 746-9356
tmitchell@brileyfin.com

Brandon Krause
Senior Writer
(818) 746-9335
bkrause@brileyfin.com

ASSET DISPOSITION TEAM

Adam Alexander
CEO
GA Global Partners
(818) 340-3134
aalexander@brileyfin.com

Paul Brown
Vice President
GA Global Partners
(203) 292-8111
pbrown@brileyfin.com

About B. Riley Advisory Services

B. Riley Financial (NASDAQ: RILY) companies provide tailored financial solutions to meet the strategic, operational, financial advisory and capital needs of its clients and partners. B. Riley operates through several subsidiaries which offer a diverse range of complementary end-to-end capabilities spanning investment banking and institutional brokerage, private wealth and investment management, corporate advisory, restructuring, due diligence, forensic accounting and litigation support, appraisal and valuation, and auction and liquidation services.

B. Riley Advisory Services offers specialty financial advisory services to lenders, law firms and other professional services firms to support complex business problems, including bankruptcy, restructuring, turnaround and crisis management, and litigation matters. Advisory services include asset-based lending appraisal and valuation, due diligence, transaction advisory, forensic accounting and fraud investigations. B. Riley Advisory Services is the trade name for GlassRatner Advisory & Capital Group, LLC, Great American Group Advisory & Valuation Services, LLC, Great American Group Machinery & Equipment, LLC, and Great American Group Intellectual Property, LLC.

B. Riley Financial, Inc. is headquartered in Los Angeles with offices in major financial markets throughout the United States, Europe, and Australia. For more information on B. Riley Financial, Inc., please visit www.brileyfin.com.



MONITOR AUTOMOTIVE
BRILEYFIN.COM
SEPTEMBER 2020
800-45-GREAT

VOLUME
325

LOS ANGELES (HQ)

21255 Burbank Boulevard
Suite 400
Woodland Hills, CA 91367
T 818.884.3737

NEW YORK

299 Park Avenue
21st Floor
New York, NY 10171
T 212.457.3300

ATLANTA

3445 Peachtree Road
Suite 1225
Atlanta, GA 30326
T 470.346.6800

BOSTON

300 First Avenue
Suite 201
Needham, MA 02494
T 781.444.1400

CHICAGO

200 West Madison Street
Suite 2950
Chicago, IL 60606
T 312.368.8880
F 312.368.8883

DALLAS

17304 Preston Road
Suite 720
Dallas, TX 75252
T 972.996.5630

HOUSTON

4400 Post Oak Parkway
Suite 1400
Houston, TX 77027
T 713.226.4700

CHARLOTTE

15720 Brixham Hill Avenue
Suite 300
Charlotte, NC 28277
T 704.227.7161
F 704.227.7171

MILWAUKEE

10850 West Park Place
Suite 970
Milwaukee, WI 53224
T 414.831.2850

WILTON

73 Old Ridgefield Road
Suite 6
Wilton, CT 06897
T 203.663.5101

GERMANY

Prinzregentenstr 18
Fifth Floor
80538 Munchen,
Germany

AUSTRALIA

Level 29, Chifley Tower
2 Chifley Square
Sydney, NSW 2000
Australia