Great American Group

JANUARY 2019

Monitor

Automotive

CROSSOVERS TAKE THE LEAD

NO IDLING

Crossovers, trucks, and SUVs finish strong in 2018 as continued shifts in consumer preference put most sedans on the sidelines.

HIGH MILEAGE

A growing used vehicle market continues to drive prices down, while average vehicle age and annual miles driven are on the rise.

CHINA CHARGED UP

Despite China's first slump in sales growth in over two decades, the world's largest auto market is buzzing with demand for electric vehicles.

In This Issue

MONITOR AUTOMOTIVE
GREATAMERICAN.COM
JANUARY 2019
800-45-GREAT

VOLUME
290

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	Mixed	Mixed	Consistent	Consistent
Sales Trends	Mixed	Mixed	Consistent	Mixed
Gross Margin	Consistent	Consistent	Consistent	Consistent
Inventory	Mixed	Mixed	Consistent	Mixed

OEM PARTS

NOLVs for OEM parts were mixed in the second half of 2018, up or down multiple percentage points for most companies, depending on shifts in inventory mix and gross margins. GA notes that more favorable NOLVs occurred in the heavy duty sector, whereas NOLVs in the passenger and light truck sectors varied by program and individual OEM plant served.

Sales and inventory levels were mixed, increasing or decreasing up to 15%. Certain OEM parts manufacturers and distributors experienced higher sales volumes, particularly in the heavy duty sector, while other companies attributed decreases in sales and increased inventory levels to expiring service programs.

GA observed that gross margins for OEM parts remained relatively consistent in the latter half of 2018.

AFTERMARKET REPLACEMENT PARTS

NOLVs for aftermarket replacement parts were mixed in the second half of 2018, with minor fluctuations primarily driven by specific product introductions, expansion into e-commerce, strategic exits from certain channels, or terminated relationships with certain customers. However, GA notes that while most industry metrics support growth in the aftermarket segment, GA has not seen an industry-wide trend come to fruition in 2018.

Sales and inventory levels of aftermarket replacement parts were mixed in the latter half of 2018, up or down multiple percentage points for many companies, primarily due to the introduction of new products, entries into or exits from sales channels, and changes in customer relationships.

GA observed that gross margins for aftermarket replacement parts remained relatively consistent for the remainder of 2018.

Trend Tracker

AFTERMARKET ACCESSORIES

NOLVs for aftermarket accessories remained relatively consistent in the latter half of 2018, with only minor fluctuations based on inventory mix or changes in categorical gross margin.

Sales of aftermarket accessories for many companies remained relatively consistent for the remainder of the year.

Similarly, GA observed that gross margins remained relatively consistent, despite competitive market conditions.

Additionally, GA noted that inventory levels remained consistent across the majority of companies.

TIRES

NOLVs for tire manufacturers and distributors remained relatively consistent in the second half of 2018, with minor fluctuations based on inventory mix or changes in categorical gross margin.

Sales of tires fluctuated in the latter half of the year, increasing or decreasing up to five percentage points, largely due to an industry shakeup in the wake of the formation of TireHub by Goodyear and Bridgestone in 2018, as well as the overall decline in new car sales.

GA observed that gross margins and inventory levels for tires were mixed in the latter half of 2018, with some companies reporting an increase in tire costs as a result of changes in U.S. tariffs.

Overview

The cyclical downturn of the U.S. auto industry continued to weigh on automakers for the latter half of 2018. While many manufacturers have enjoyed steady demand for crossovers, SUVs, and light trucks, experts remain guarded as waning demand for cars and the growing used vehicle market lead the industry to a state of plateauing performance.

In the second half of 2018, cars remained a weak area of demand across the vast majority of automakers despite numerous incentives to encourage buyers in showrooms. While recent light vehicle sales numbers have proven positive due to surging demand for crossovers, SUVs, and trucks, industry analysts suggest the cyclical automotive market is continuing its descent into 2019, as evidenced by the slowdown in car and fleet volume sales compared to recent years. Additionally, the growing glut of off-lease vehicles flooding the market through 2018 compounded market issues for many automotive manufacturers in the U.S.

The record number of off-lease vehicles returning to dealerships in 2018 raised overall supply, which drove down prices for used cars and trucks and subsequently tempered demand for new vehicles.

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. Conversely, demand for replacement parts is anticipated to remain steady, given the aging fleet of vehicles in the U.S. and the historically high average vehicle age of 11.6 years, according to the U.S. Department of Transportation.

With a growing used vehicle market driving prices down, and steady sales of crossovers, SUVs, and light trucks, the annual miles driven per vehicle are on the rise. Travel on all roads increased 0.3% in November 2018 versus 2017, while cumulative travel for 2018 rose 0.3% to three trillion vehicle miles. Increases in travel rates and average vehicle age lead to greater wear on vehicles.

GREAT AMERICAN GROUP
a B. Riley Financial company

New Vehicle Sales

Late cycle headwinds from higher interest rates and a growing influx of nearly new off-lease vehicles flooding the used car market continued to temper sales growth of new vehicles in the second half of 2018. Overall car sales fell 11% in November 2018 versus the same period in the prior year, accounting for approximately 30% of total U.S. light vehicle sales for the month.

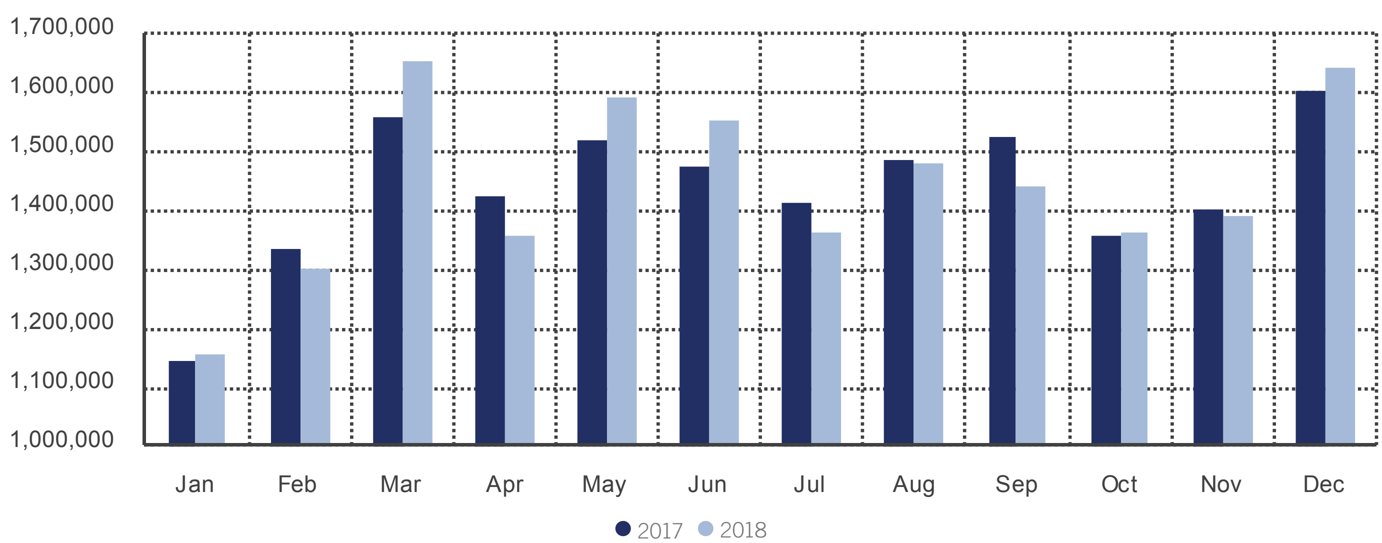
While poor car sales weighed on automakers, the declines were offset by record-high demand for crossovers, SUVs, and trucks, which collectively accounted for 70% of U.S. light vehicle sales in December 2018, a percentage that is expected to continue its ascent in coming years, given the growing popularity of these vehicles and EPA regulations impacting how fleets are calculated. Experts also attribute the overall success in new vehicle sales to stimulated demand from tax reform, which strengthened retail demand as the year progressed and allowed for strong gains in fleet sales. As a result, the seasonally adjusted annualized rate of new vehicle sales totaled 17.7 million units in December 2018, surpassing consensus expectations of 17.3 million vehicles sold, according to *Automotive News*.

The most successful automakers have committed to the continued shift in consumer preference toward crossovers, SUVs, and trucks, as these larger vehicles provide increasingly fuel-efficient and safe standard options with fully-equipped assistive technology, all while offering comfortable interiors. As a result of the growing popularity of these vehicles and the subsequent decline in demand for sedans, many manufacturers announced plans to discontinue production of certain car models altogether in 2019.

Consequently, a reduction in sedan offerings in the U.S. market will give way to new sedan choices from automakers based in Japan, Korea, and China, particularly after the next increase in oil and fuel prices, leading to a major rift in the U.S. supply chain to challenge foreign-made products.

According to *Inside EVs*, U.S. electric vehicle sales totaled 49,900 units in December 2018, up from 42,588 units sold in the prior month and 26,107 units sold in December 2017. Electric vehicle sales for all of 2018 reached 361,307 units. Tesla remained the strongest contributor, followed by Toyota, Chevrolet, Honda, and Nissan. The relatively small electric segment is expected to see only modest gains in the next three years, as battery manufacturing costs dampen profitability.

1 U.S. Auto Sales (including General Motors)
12 Months Ended December 2017 versus 2018 (in Units Sold)



Domestic Manufacturers

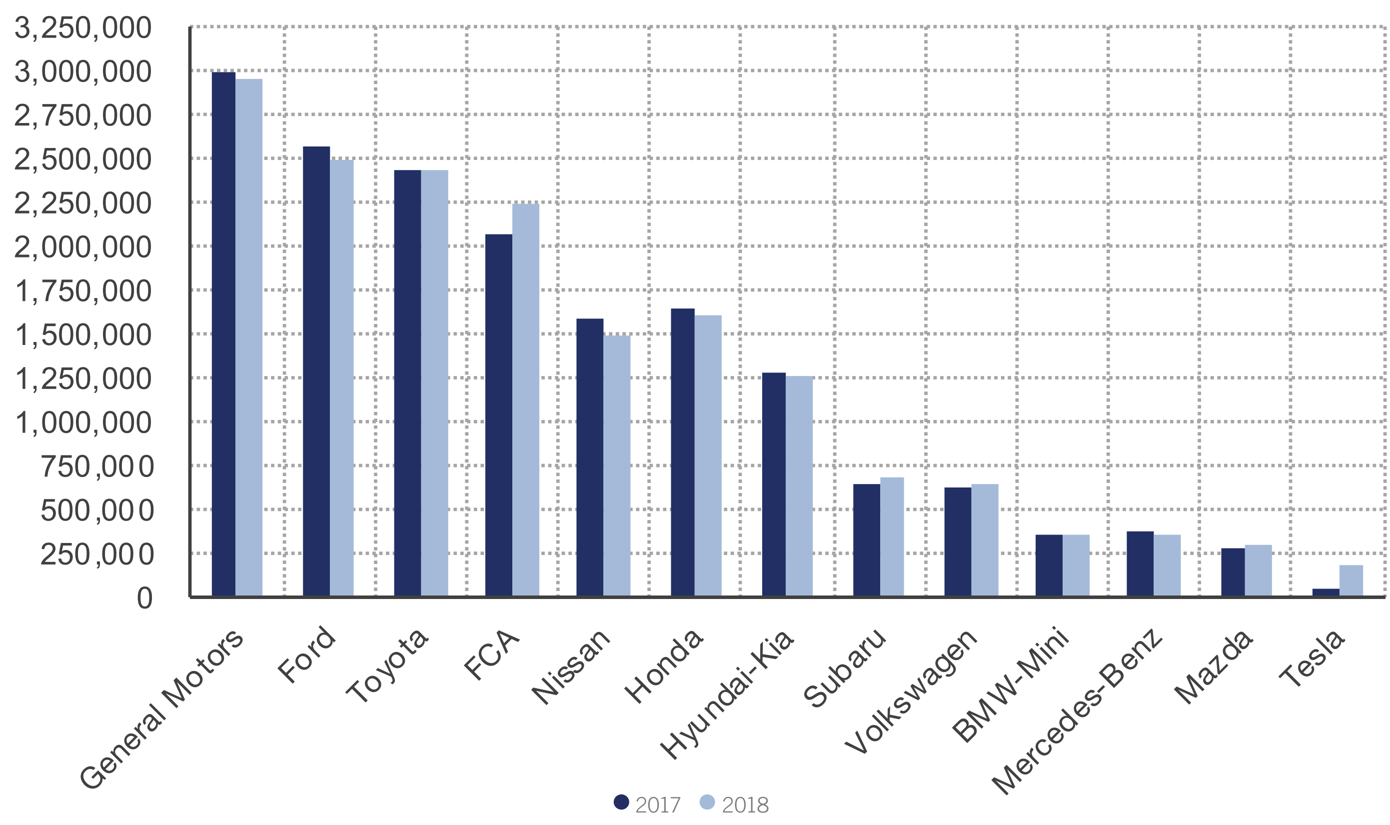
According to the latest press release, Ford suffered an overall loss in sales in December 2018 with 220,774 total units sold in the U.S., down 8.8% versus the same month in the prior year, primarily due to anemic demand for cars and a 19.5% decrease in fleet sales. While demand remained strong for Ford's F-Series product line, the automaker's truck and SUV sales fell 3.8% and 4.4%, respectively, for the month, while car sales declined 27.8% in line with continued consumer preference for crossovers, SUVs, trucks, and used vehicles.

General Motors reported 785,229 total units sold in the fourth quarter of 2018, down 2.7% from the same quarter in the prior year. The overall decline was largely led by poor sales performance across several of the automaker's brands, including sales decreases of 3.2%, 2.7%, and 13.7% for Chevrolet, Cadillac, and Buick, respectively.

In line with continued shifts in consumer preferences for crossover vehicles, General Motors sold one million crossover units in 2018, up 7% from the prior year. The overall increase was driven by continued popularity of General Motors' completely redesigned 2018 line of crossovers. In particular, the GMC Terrain and Chevrolet Equinox models posted sales gains of 65% and 26.4%, respectively, in the fourth quarter.

FCA US LLC (Fiat Chrysler Automobiles) reported 196,520 vehicles sold in December 2018, an increase of 14% versus the prior year. The growth was attributed to record-high December and full-year sales for the automaker's Jeep brand line, particularly for the Jeep Wrangler, as well as for the company's hugely popular array of Ram Truck models. Jeep and Ram Truck sales increased 10% and 37%, respectively, in December 2018 versus the prior year.

2 U.S. Light Vehicle Retail Sales
Full Year 2017 versus 2018 (in Units Sold)



Global Market

CHINA

Although China maintained its position as the world's largest new automobile market for the 10th consecutive year in 2018, Chinese automakers witnessed the country's auto market decline for the first time in over two decades due to the phasing out of purchase tax cuts on smaller vehicles, mounting competition, and ongoing economic pressure amid the nation's trade war with the U.S.

According to the China Association of Automobile Manufacturers, the country reported a 13% decline in auto sales in December 2018, marking the sixth consecutive month of sales losses, and bringing annual sales to 28.1 million units, or a decrease of 2.8% versus the prior year.

Ford was the worst performer among global automakers in China, with sales declining 37% in 2018 versus the prior year.

Meanwhile, the country's historically most successful manufacturer, Geely, reported a 20% increase in auto sales in 2018; however, the increase was notably lower than Geely's 63% year-over-year growth experienced in 2017, and the automaker now expects sales to remain flat in 2019.

Toyota bucked the trend in China with a 14.3% year-over-year increase in sales in 2018, driven by strong demand for the automaker's Lexus luxury brand and aggressive marketing.

In an effort to assist auto sales, the Chinese government announced plans in January 2019 to introduce policies in the coming year designed to spur domestic spending on larger purchases such as new cars and trucks. Additionally, the government implemented changes to the income tax threshold to bolster incomes and consumer spending power. However, any further trade deterioration between the U.S. and China could result in additional difficulties in China's auto market, and expert outlooks remain guarded for 2019.

China aims to become a leading automotive manufacturing powerhouse in the next 10 years with breakthroughs in key technologies while increasing the share of Chinese auto brands in the global market. The Chinese government expects new electric vehicle output and sales in particular to reach 2.0 million units annually by 2020, with an overall vehicle output of 30.0 million by 2020 and 35.0 million by 2025.

China also plans to spearhead the world's green automotive production, as the country's increasingly stringent environmental regulations and production incentives further spur development of new technology and other environmentally conscious alternatives for the industry. Beginning in 2019, major automakers will be punished in China unless they meet federally mandated quotas for zero-emission and low-emission vehicles, or choose to purchase credits from other companies meeting said quotas. The country's regulations and incentives have proven successful, as Chinese electric car sales totaled 1.1 million units in 2018, an increase of 83% versus 2017. Comparatively, the U.S. sold 361,307 electric vehicles in 2018, an 81% increase over 2017.

China is expected to overcome technical hurdles and capture inexpensive and fuel-efficient vehicle segments that are the least covered by OEMs in the U.S. Consequently, China's investment in automotive suppliers will likely rise over the next several years to accommodate the global market takeover.

EUROPE

The car market in the European Union experienced its fourth consecutive month of sales declines in December 2018. Registrations of new vehicles totaled one million units for the month, down 8.4% versus the prior year, primarily driven by the introduction of the region's stringent Worldwide Harmonized Light Vehicle Test Procedure fuel economy standard in September. Consequently, nearly all major European Union markets suffered while automakers continue to adapt to the new fuel standard. Italy bucked the downward trend with a 2% year-over-year sales increase in December.

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 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

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

Jennie Kim
Senior Vice President
Western Region
(818) 974-0602
jkim@greatamerican.com

Ryan Mulcunry
Executive Vice President
Northeast Region, Canada & Europe
(857) 231-1711
rmulcunry@greatamerican.com

David Seiden
Executive Vice President
Southeast Region
(404) 808-8153
dseiden@greatamerican.com

Daniel J. Williams
Managing Director
New York Region
(908) 251-3580
dwilliams@greatamerican.com

Drew Jakubek
Managing Director
Southwest Region
(214) 455-7081
djakubek@greatamerican.com

Bill Soncini
Managing Director
Midwest Region
(773) 495-4534
bsoncini@greatamerican.com

OPERATIONS

Lee M. Danhauer, ASA
VP, Senior Managing Director
(336) 723-4895
ldanhauer@greatamerican.com

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

Chad P. Yutka, ASA
Managing Director, CAVS Group Head
(312) 909-6078
cyutka@greatamerican.com

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

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

ASSET DISPOSITION TEAM

Scott Carpenter
President, GA Retail Solutions
(818) 746-9365
scarpenter@greatamerican.com

Adam Alexander
President, GA Global Partners
(818) 884-3737
aalexander@greatamerican.com

Michael Petruski
Managing Director, GA Global Partners
(704) 516-1492
mpetruski@greatamerican.com

About Great American Group

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale, and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. In addition to the Automotive Monitor, GA also provides clients with industry expertise in the form of monitors for the paper and packaging, metals, chemicals and plastics, and building products sectors, among many others. For more information, please visit www.greatamerican.com.

Great American Group, LLC is a wholly-owned subsidiary of B. Riley Financial, Inc. (NASDAQ: RILY). B. Riley Financial provides collaborative financial services and solutions tailored to fit the capital raising and financial advisory needs of public and private companies and high net worth individuals.

The company operates through several wholly-owned subsidiaries, including Great American Group; B. Riley FBR, a full-service investment bank and institutional brokerage; GlassRatner, a specialty financial advisory services and consulting firm; B. Riley Wealth Management, B. Riley Asset Management and B. Riley Alternatives, which offer investment management to institutional and high net worth investors; Great American Capital Partners, which originates and underwrites senior secured loans for asset-rich companies; and B. Riley Principal Investments, which invests in or acquires companies and assets with attractive return profiles.

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.

GREAT AMERICAN GROUP
a B. Riley Financial company

MONITOR AUTOMOTIVE
GREATAMERICAN.COM
JANUARY 2019
800-45-GREAT

VOLUME
290

LOS ANGELES (HQ)
21255 Burbank Blvd.
Suite 400
Woodland Hills, CA 91367
T 818.884.3737

NEW YORK
299 Park Ave.
21st Floor
New York, NY 10171
T 212.457.3300

ATLANTA
1200 Abernathy Rd.
Suite 1700
Atlanta, GA 30328
T 770.551.8115

BOSTON
300 First Ave.
Suite 201
Needham, MA 02494
T 781.444.1400

CHICAGO
10 West Madison St.
Suite 2950
Chicago, IL 60606
T 312.777.7945

DALLAS
17304 Preston Rd.
Suite 720
Dallas, TX 75252
T 972.996.5630

HOUSTON
9 Greenway Plaza
Suite 2050
Houston, TX 77046
T 713.226.4700

MILWAUKEE
10850 West Park Pl.
Suite 970
Milwaukee, WI 53224
T 414.831.2850

WILTON, CT
73 Old Ridgefield Rd.
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