GREAT AMERICAN GROUP

JULY 2019

Monitor

Automotive

THE CYCLICAL DOWNTURN CONTINUES

DOWNSHIFT IN SALES

Vehicle sales continue their descent in the first six months of 2019, as lackluster demand for new sedans and compact cars weighs on the industry

GENTLY USED

The growing influx of off-lease vehicles in the used vehicle market continues to drive prices down, luring more consumers away from new vehicles

CHINA IN FLUX

While electric vehicle sales continue to be a bright spot, the world's largest auto market struggles with poor car sales performance and trade conflicts

In This Issue

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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	Mixed ▲▼	Decreasing ▼	Mixed ▲▼
Sales Trends	Mixed ▲▼	Mixed ▲▼	Increasing ▲
Gross Margin	Consistent —	Slightly Decreasing ▼	Consistent —
Inventory	Mixed ▲▼	Increasing ▲	Increasing ▲

OEM PARTS

NOLVs for OEM parts were mixed in the first half of 2019, up or down multiple percentage points for most companies, depending on shifts in inventory mix and gross margins. GA notes that more favorable NOLVs continued to occur in the heavy-duty sector, whereas NOLVs in the passenger and light truck sectors varied by program and companies' relationships with individual OEM plants.

Sales and inventory levels were mixed, increasing or decreasing up to 10%. While certain companies cited higher input costs for inventory fluctuations, most manufacturers and distributors attributed swings in sales and inventory levels to new programs and the transitioning of high-volume products into service mode.

GA observed that gross margins for OEM parts remained relatively consistent in the first half of 2019.

AFTERMARKET REPLACEMENT PARTS AND ACCESSORIES

NOLVs for aftermarket replacement parts and accessories decreased up to 5% in the first half of 2019, driven by higher supply levels alongside a slight compression of gross margins.

Aftermarket sales were mixed in the beginning half of 2019, up or down multiple percentage points for many companies, primarily due to new product introductions, entries into or exits from sales channels, and changes in customer relationships. However, GA noted that some larger distributors experienced modest increases in demand. Historically, aftermarket sales are counter-cyclical to new vehicle sales and begin to increase following a decline in new vehicle sales, with a typical six- to eight-month lag between a drop-off in new vehicle sales and an increase in aftermarket sales.

The growing average vehicle age in the U.S. will add pressure to the do-it-yourself market in the next several years.

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

Aftermarket inventory levels increased for most companies thus far in 2019 due to new product introductions, increases in forecasted demand, higher costs related to tariffs, or spikes in purchasing prior to tariff increases.

Trend Tracker

TIRES

NOLVs for tire manufacturers and distributors were mixed in the first half of 2019, with modest fluctuations based on a shakeup in the broader tire distribution markets.

Sales of tires increased in the beginning half of the year, supported by overall industry metrics and continued consumer demand. However, the impact of the formation of TireHub by Goodyear and Bridgestone in 2018 continued to negatively impact some industry operators.

Gross margins remained relatively consistent thus far in the year. However, GA noted that strong competition and upward pressure on cost among companies could result in compressed margins.

GA observed that inventory levels for tires increased in the first half of 2019, with multiple companies reporting an increase in imports in an effort to remain ahead of increases in tariffs.

Overview

In the first half of 2019, automakers continued to struggle with the cyclical downturn of the U.S. auto industry. Experts remain guarded as manufacturing costs rise among trade conflicts, while demand for new vehicles takes a backseat to the lure of the growing used vehicle market.

Rising auto prices and higher interest rates tempered demand for new vehicles in the first half of 2019, with a growing number of consumers heading to used car lots in search of the best deals. The dramatic shift away from new sedans and compact cars has caused a considerable cut in sales volumes as automakers continue to shed ill-performing models from their portfolios.

While demand for trucks has been a bright spot in the industry, poor car sales and rising manufacturing costs related to tariffs are expected to pull the year's total new vehicle sales just below the 17 million mark for the first time since 2014. Furthermore, the growing glut of off-lease vehicles flooding the market thus far in 2019 continues to muddy the U.S. market for many automotive manufacturers. The record number of off-lease vehicles returning to dealerships in the first six months of 2019 has raised overall supply, which has driven down prices for used cars and trucks.

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 is expected to fare slightly better in 2019, given the aging fleet of vehicles in the U.S. and the historically high average vehicle age of 11.7 years, according to the U.S. Department of Transportation. IHS Automotive also projects the number of vehicles aged 16 years or more will increase from 62 million on roads in 2017 to 81 million by 2021, citing the increasing quality of vehicles.

With a flooded used vehicle market driving prices down and putting more consumers behind the wheel, the annual miles driven are rising. Travel on all roads rose 1% in May 2019 versus 2018, while cumulative travel for the year increased 1% to 1.3 trillion miles. As travel and average vehicle age increase, so do vehicle wear and demand for aftermarket products.

New Vehicle Sales

With the U.S. auto industry continuing its cyclical descent in the first half of 2019, the growing influx of nearly new off-lease vehicles flooding the used car market and lowering used car pricing has continued to temper sales growth of new vehicles. According to *Automotive News*, the industry experienced a decline of 210,000 units in the first six months, with further declines expected as sales slow down after the summer. The industry is bracing for a projected decrease of 450,000 to 700,000 units in 2019 versus the prior year.

According to *Autoweek*, April 2019 sales fell 2.3% versus the same period in the prior year amid weaker car and fleet volume sales and rising vehicle prices. However, sales declines were offset by strong demand for crossovers, trucks, and SUVs. These three vehicle segments collectively accounted for 69% of total new vehicle sales in 2018, a number that is expected to trend even higher in coming years, given the growing popularity of these vehicles and EPA regulations impacting fleet emissions standards.

May 2019 sales fell 0.3% compared to the prior year, as retail sales continued to slip across most manufacturers in favor of fleet sales. The decline in sales was partially offset by Memorial Day sales promotions.

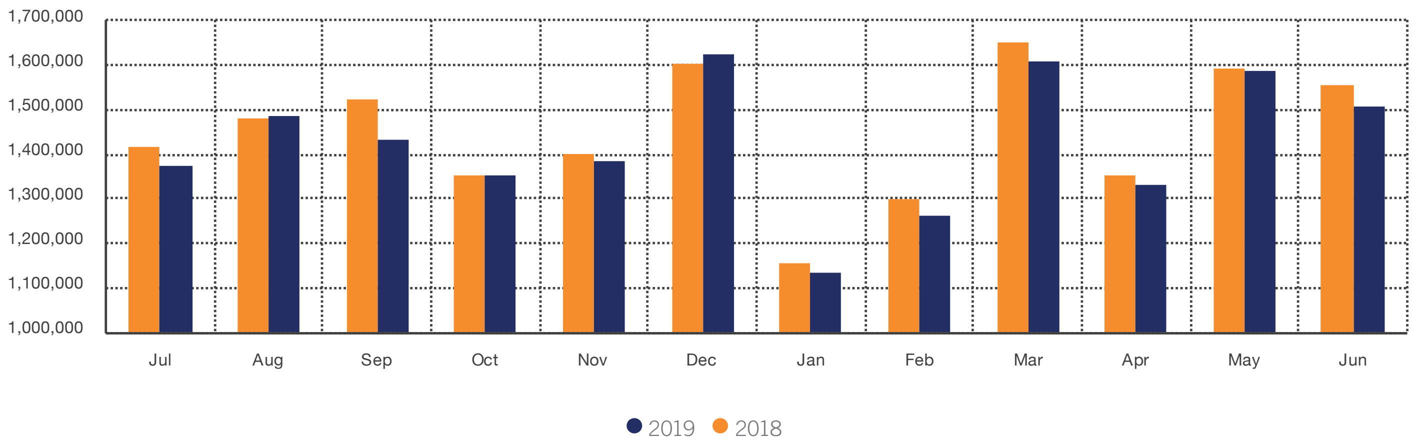
Auto sales declined 2.9% in June 2019 versus the prior year amid weakened demand for sedans and a reduction in fleet shipments across many automakers.

The most successful automakers have learned to cater to the continued shift in consumer preference toward crossovers and light trucks in 2019. As a result of the popularity of these vehicles and the subsequent decline in demand for cars, many manufacturers continued to drop production of several sedan models and announce further discontinuations.

Consequently, the U.S. market will experience a widening void in its manufacturing plan without sedans, which will cater to Japan, Korea, and new China-based offerings following any significant gas price increases.

According to *Inside EVs*, manufacturers of electric vehicles collectively reported 37,818 electric vehicles sold across the U.S. in June 2019, an increase of 51% versus the same period in the prior year. Tesla has continued to lead in the all-electric segment, followed by Toyota and BMW. However, electric vehicles captured only a 2.5% share of the U.S. auto market thus far in 2019, as battery technology and associated costs continue to temper industry profitability.

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



Domestic Manufacturers

Overall, Ford sales suffered in the second quarter of 2019. The automaker reported 650,336 total units sold in the U.S., down 4.1% versus the same month in the prior year. The decline was partially offset by strong demand for the automaker's F-Series truck product line, with truck sales up 7.5% versus 2018. Ford's car and SUV sales declined 21.4% and 8.6%, respectively, in line with continued consumer preference for light trucks.

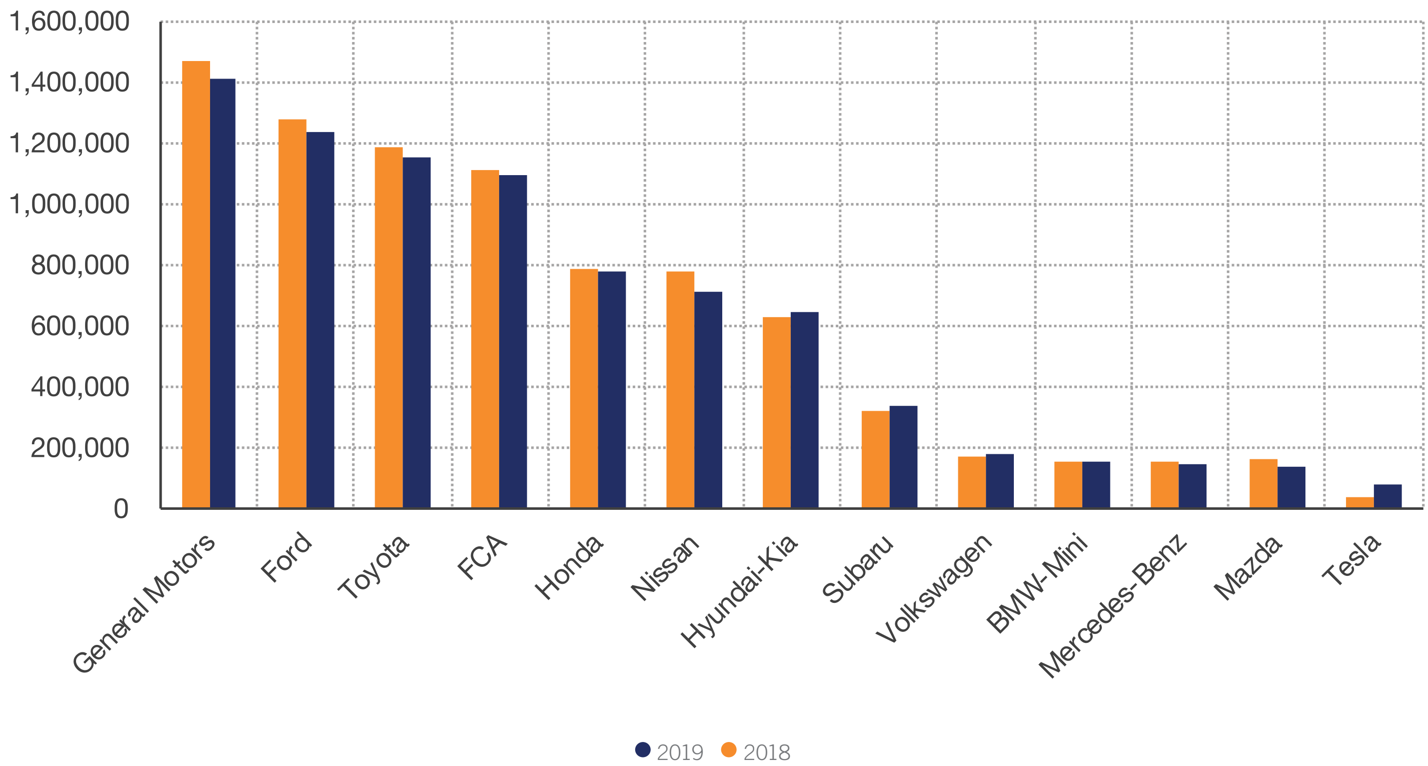
General Motors fared similarly in the second quarter, with 746,659 total units sold and a 1.5% sales decline versus the same quarter in 2018, as weakened demand for cars and lower retail sales continued to temper growth. Despite the overall decline, General Motors reported strong performance from the automaker's crossover offerings, which grew in sales by 17% in the second quarter of 2019 versus the prior year.

In addition, the Chevrolet Silverado 1500 and GMC Sierra 1500 product lines each enjoyed a 12% gain in second-quarter sales versus 2018.

FCA US LLC (Fiat Chrysler Automobiles) reported strong sales in June 2019, with 206,083 vehicles sold and a 2% increase versus the same period in the prior year, marking the automaker's best June retail sales in 18 years. The growth was attributed to record-high June sales for the company's Ram Truck and Dodge Charger lines, as well as the launch of the all-new Jeep Gladiator.

Toyota Motor North America reported a total of 202,352 vehicles sold in June 2019, down 3.5% from the same period in the prior year due to waning demand for sedans. The decline was partially offset by strong demand for the automaker's popular RAV4 and Tacoma models.

2 U.S. Light Vehicle Retail Sales
Year-to-Date June 2018 versus June 2019 (in Units Sold)



Global Market

CHINA

While China remains the world's largest new automobile market in 2019, the country is not immune to the global trend of lackluster new vehicle sales. China's new light vehicle market contracted for the 12th consecutive month in June 2019 despite dealerships in many provinces offering generous discounts to reduce inventories ahead of changes in the country's emissions regulations. According to the China Association of Automobile Manufacturers, new car and truck deliveries declined nearly 8% to 1.7 million units in June versus the prior year.

Under pressure by the central government to mitigate environmental concerns with pollution, most major Chinese cities and provinces adopted State 6 emissions rules on July 1, which are similar to the Euro 6 standards. The move prompted many local dealerships to offer significant discounts in an effort to sell off vehicles below the new standards.

China aims to become a leading automaking powerhouse in the next decade with breakthroughs in key technologies while increasing the share of Chinese auto brands in the global market. In particular, the government expects new electric vehicle output and sales to reach two million units annually by 2020, with an overall vehicle output of 30 million by 2020 and 35 million by 2025.

China intends to spearhead the world's green automotive production, as the country's environmental regulations and production incentives further spur development of new technology and other environmentally conscious alternatives for the industry at large. Led by explosive demand, Chinese electric vehicle sales totaled 617,000 units in the first half of 2019, up 57% from the same period in the prior year. Additionally, electric vehicle sales were recently spurred when Beijing raised the technology threshold for electric vehicles that qualify for subsidies in March, which urged dealerships to use attractive discounts to sell through older models.

The ever-growing investment in the Chinese electric vehicle market is paving the way for China's first world-class auto brand to rival the likes of Audi, BMW, and Mercedes in the global retail market. Automaker BYD aims to bring more electric models to the masses in the coming years.

Nonetheless, the rapid growth in electric vehicle demand is causing an $18 billion electric vehicle bubble in China as automakers, startups, and investment titans vie for their stake in the market. With sales of passenger electric vehicles projected to reach a record 1.6 million units in China this year, market competition is ballooning at an alarming rate. Over 480 electric vehicle manufacturers are registered in China thus far in 2019, which is nearly triple the number from two years ago.

Lastly, China's automakers will continue to struggle with the ongoing trade conflicts with the U.S., with no end in sight as talks fell apart in May 2019 and the Trump administration boosted tariffs on $200 billion in Chinese goods from 10% to 25%. Auto parts ranked 10th on the list of products impacted by the higher tariffs, with a value of $2.3 billion, according to the U.S. International Trade Commission. While talks are expected to resume in July, Beijing is waiting to see how the U.S. government navigates trade relations surrounding goods from Chinese telecommunications giant Huawei.

EUROPE

The European light vehicle market reported a 7.9% year-over-year decline in sales in June 2019, marking the largest drop this year. Weakened demand among European automakers is partly due to consumers unwilling to commit to large discretionary purchases thus far in 2019.

The European Automobile Manufacturers' Association also attributed poor sales to fewer selling days in June, ever-changing industry regulations, and the residual effects of emissions scandals on diesel car demand. The downward trend is expected to continue this year, especially given the uncertainty amid mounting global trade conflicts.

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.

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