GREAT AMERICAN GROUP

JULY 2018

Monitor

Automotive

LIGHTER TRAFFIC AHEAD

KICKING THE TIRES

A continued influx of nearly new off-lease vehicles is raising the stakes for showrooms and dealers struggling in the industry's cyclical downturn.

CROSSING OVER

Sales for crossovers, trucks, and SUVs continue to rise in 2018 as shifts in consumer preference leave most sedans in the dust.

CHINA IN FULL THROTTLE

China is poised to remain the world's largest manufacturer of new automotive vehicles for the 10th consecutive year.

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MONITOR AUTOMOTIVE
GREATAMERICAN.COM
JULY 2018
800-45-GREAT

VOLUME
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Trend Tracker

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

OEM PARTS

NOLVs for OEM parts were mixed in the first half of 2018, up or down five percentage points for most companies, depending on shifts in inventory mix and gross margins.

Sales were mixed in the first half of 2018, increasing or decreasing up to 20%, as some OEM parts manufacturers and distributors reported lower volumes, while others noted new contracts or programs.

Gross margins primarily decreased in the first half of 2018, with most companies noting increased input costs and contractual obligations to reduce prices throughout the length of their contracts.

Overall inventory levels were mixed in the first half of 2018, as many companies reported lower volumes, while others noted new contracts or programs.

AFTERMARKET REPLACEMENT PARTS

NOLVs for aftermarket replacement parts decreased up to three percentage points in the first half of 2018, with values primarily driven by inventory mix or levels of excess inventory. However, GA notes that in an OEM downturn, the aftermarket replacement sector experiences a four- to eight-month lag prior to seeing an upturn.

Sales of aftermarket replacement parts increased up to 5%, primarily due to strong market demand in light of the number of aging vehicles on the road.

Gross margins for aftermarket replacement parts were mixed for many companies in the first half of 2018, due to fluctuations in various product categories.

GA observed that inventory levels for many companies increased up to 20% due to efforts to increase volume for new business and keep pace with increased sales volumes.

Trend Tracker

AFTERMARKET ACCESSORIES

NOLVs for aftermarket accessories were mixed, increasing or decreasing up to five percentage points, depending on individual shifts in weeks of supply and inventory mix.

Sales of aftermarket accessories for many companies decreased up to 10% in the first half of 2018, primarily driven by increased domestic and overseas competition.

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

Additionally, GA noted that inventory levels remained relatively consistent across most companies.

TIRES

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

Sales of tires decreased 1% to 3% in the first half of 2018 due to declines in new car sales.

GA observed that gross margins remained relatively consistent for most companies in the first half of 2018.

Similarly, inventory levels remained relatively consistent through the first half of 2018, with any notable shifts attributed to decreases in slower-moving tires.

Overview

While the cyclical downturn of the U.S. auto industry continued to weigh on automakers thus far in 2018, overall sales have been buoyed by steady demand for crossovers and light trucks, as well as the largest factory incentives since 2008. Expert outlooks were guarded as the growing used market tempered prices and demand for new vehicles.

In the first half of 2018, automakers continued to seek ways to lure consumers into showrooms with some of the most substantial factory incentives in the past decade. While recent overall sales numbers have proven positive, industry analysts suggest the cyclical automotive market is continuing its descent, 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 into 2018 compounded market issues for many automakers.

The record number of off-lease vehicles returning to dealerships in 2018 is raising overall supply, which has driven down prices for used cars and trucks and subsequently dampened demand for new vehicles. Coupled with the aid of a year-end tax break, dealers and showrooms have temporarily countered the influx of used vehicles with strong incentives and the introduction of attractive new models.

The continued slowdown in overall new vehicle sales growth negatively impacted several segments of the automotive market, as demand for OEM parts and aftermarket accessories is directly impacted by the number of new vehicles driving off dealership lots. Conversely, demand for replacement parts is anticipated to remain steady, given the aging fleet of vehicles in the U.S.

With a growing used vehicle market driving prices down, and with new vehicle sales spurred by factory incentives, the annual miles driven per vehicle are on the rise. While travel on all roads fell 0.2% in April 2018 versus the prior year, cumulative travel for 2018 to date increased 0.2% to one trillion vehicle miles. Any increase in travel rates, coupled with the growing average vehicle age, leads to greater wear on vehicles. Automakers will see less demand for new vehicles as consumers retain vehicles for longer periods going forward.

New Vehicle Sales

With the U.S. auto industry continuing a cyclical descent in 2018, the stakes have been raised with a growing influx of nearly new off-lease vehicles flooding the used car market and lowering used car pricing, with this price competition tempering sales growth of new vehicles. Many major automakers have temporarily countered the influx with the largest factory incentives since 2008 at the expense of lower average transaction prices; however, experts remain guarded in their industry outlook as more consumers opt to drive off dealer lots in gently used rides.

According to Autoweek, April 2018 sales fell 4.8% versus the same period in the prior year amid weaker car and fleet volume sales. However, sales declines were offset by strong demand for crossovers, trucks, and SUVs. These three vehicle segments accounted for roughly 67% of total new vehicle sales in 2017, a number that is expected to trend even higher in coming years, given the growing popularity of these vehicles and EPA regulations impacting how fleets are calculated.

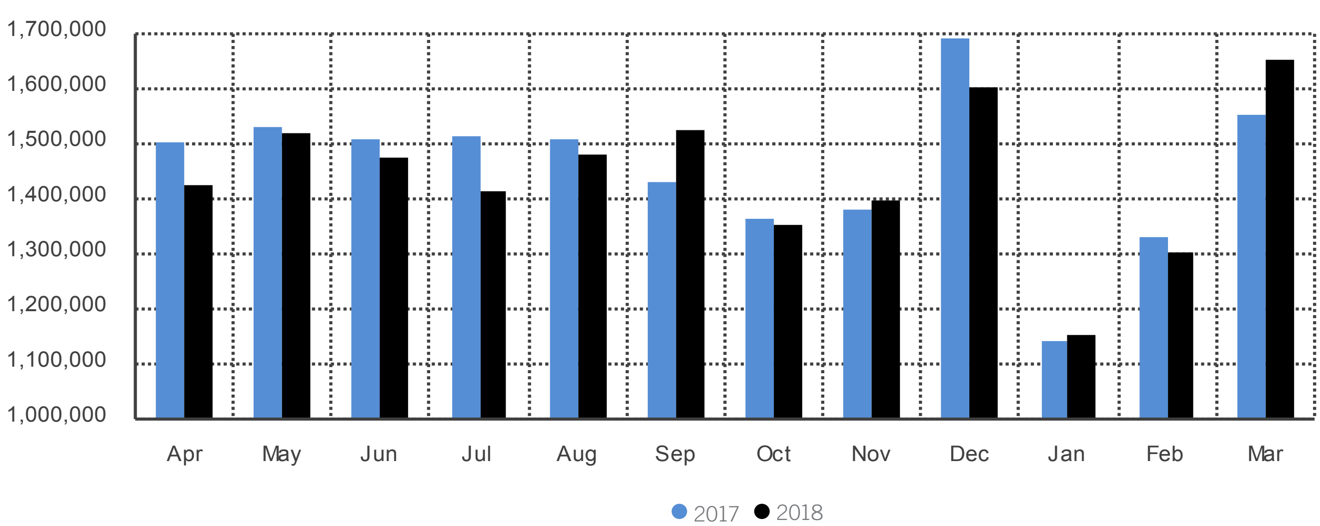
May and June 2018 sales increased 4.7% and 5.8%, respectively, compared to the prior year, positively impacted by heavy demand for light trucks and increased discounts amid holiday sales across the country.

The most successful automakers are catering to the continued shift in consumer preference toward crossovers, trucks, and SUVs in 2018, as these larger vehicles provide increasingly fuel-efficient and safe standard options with fully-equipped assistive features, all while offering comfortable and adaptable interiors. As a result of the growing popularity of these vehicles and the subsequent decline in demand for sedans, many manufacturers have announced plans to discontinue production of certain car models altogether in 2018.

Consequently, the U.S. market will have a gaping hole in its manufacturing plan without many sedans, which will cater to Japan, Korea, and new China-based offerings in the next gas price increase, leading to a major rift in the supply chain to catch up with foreign-made product not yet contemplated.

According to Inside EVs, manufacturers of electric vehicles experienced their 32nd consecutive month of sales gains in May 2018, with 99,508 total electric vehicles sold across the U.S. Tesla continued to lead the race, with Porsche proving to be a strong rival slongside Toyota, BMW, Honda, and Nissan. However, the relatively small electric segment will remain stagnant for the next three to four years, as battery technology and associated costs continue to temper industry profitability.

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



Domestic Manufacturers

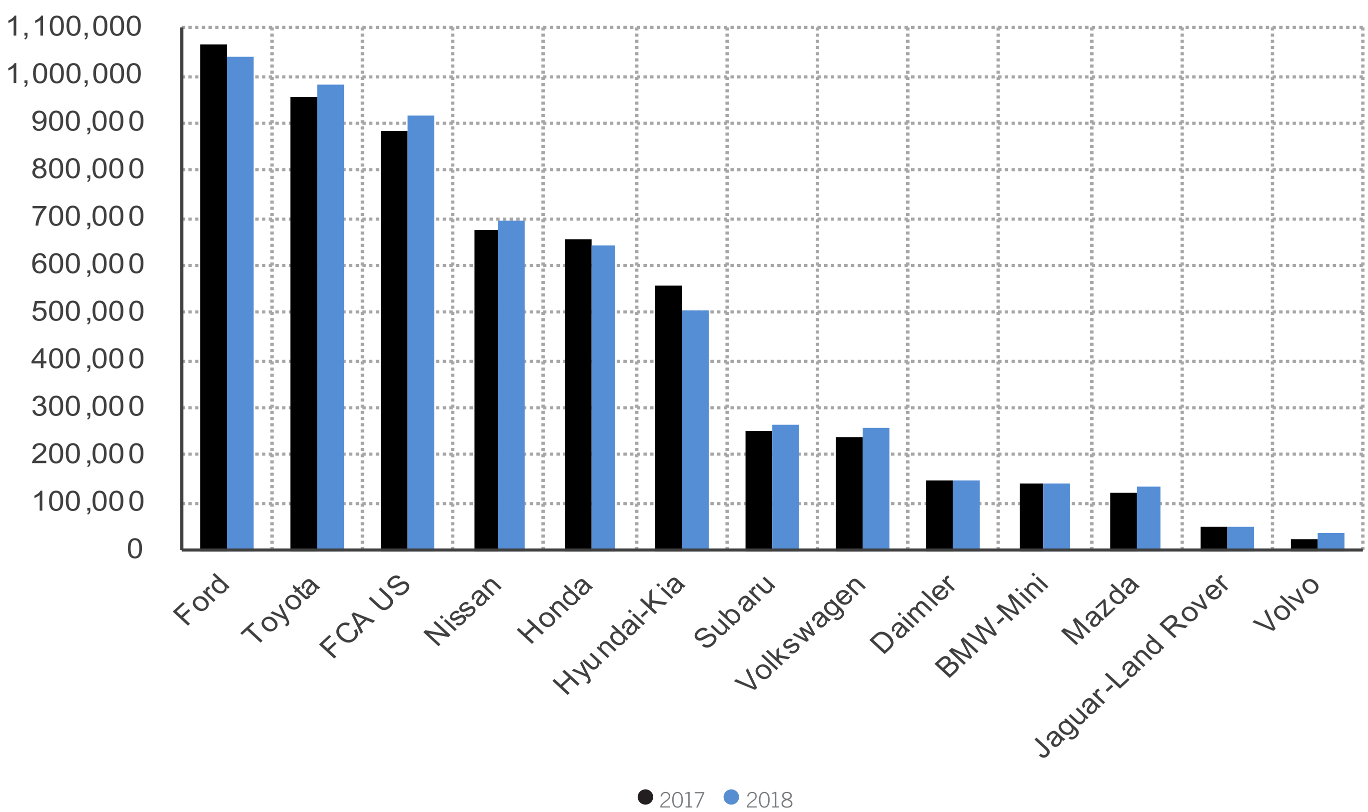
According to the latest press release, Ford enjoyed an overall gain in sales in June 2018 with 230,635 total units sold in the U.S., up 1.2% versus the same month in the prior year. Sales were largely driven by robust demand for the automaker's F-Series truck and Expedition SUV product lines. Ford's truck and SUV sales increased 3.2% and 8.9%, respectively, for the month, while car sales declined 14% in line with continued consumer preference for truck and SUV models.

General Motors fared similarly in May 2018, with 263,539 total units sold and an 11% sales increase versus the prior year. The overall gain was primarily led by a 41% increase in crossover sales, and a 19% increase in light truck sales, as the automaker's latest models wooed buyers in showrooms.

In addition to strong May sales, General Motors reported a profitable second quarter in 2018, with 758,000 total units sold, earning the automaker a 0.5% increase in market share in the U.S. The strong sales performance was driven by continued popularity of General Motors' crossover and SUV lines, particularly its Chevrolet and GMC product lines.

FCA US LLC (Fiat Chrysler Automobiles) reported 202,264 vehicles sold in June 2018, an increase of 8% versus the prior year and a 10.9% increase in retail sales. The growth was attributed to record-high June sales for the automaker's Jeep brand line, particularly for the Jeep Cherokee, as well as for the company's array of Ram Truck models.

2 U.S. Light Vehicle Retail Sales
Year-to-Date May 2017 versus May 2018 (in Units Sold)



Global Market

CHINA

China is poised to remain the world's largest new automobile market for the 10th consecutive year in 2018, despite the slowest growth in sales volume since 2011, as the rising popularity of crossovers and SUVs compensated for the lackluster demand for smaller vehicles. According to the China Association of Automobile Manufacturers, the country reported 2.3 million factory shipments in June 2018, an increase of 4.8% versus the prior year.

Nonetheless, China's June auto sales indicated a deceleration following 7.9% growth in the prior month, adding to economic pressure amid a worsening trade battle with the U.S. Sales growth was further tempered by tightened control on bank lending to help curb the country's surging debt.

In an effort to assist auto sales, the Chinese government recently announced a cut to auto import duties from 25% to 15%. However, an additional 25% tariff on vehicles imported from the U.S. was also implemented in July 2018 in light of the worsening trade war between the two countries.

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. The 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 environmental regulations and production incentives further spur development of new technology and other environmentally conscious alternatives for the industry. Chinese electric car sales totaled 579,000 units in 2017, followed by the U.S. and France with 198,530 and 118,770 units sold, respectively.

Additionally, the recent increased 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. In a partnership with Daimler, Chinese automaker BYD introduced a new long-range electric Denza model in March 2018, and BYD aims to bring more electric models to the masses in the coming years.

Lastly, the partnership between China-based GAC Group and FCA US promises to create a potential first exporter of small vehicles to the U.S., further cementing China's foothold in the global auto market.

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

In May 2018, the passenger car market in the European Union flattened out after showing robust growth in the prior month. Registrations of new vehicles totaled 1.4 million for the month, up 0.8% versus May 2017. Results were diverse among the major European Union markets, with Spain leading with 7.2% growth versus the prior month, followed by the U.K. with 3.4% sales growth. Meanwhile, Germany and Italy reported sales declines of 5.8% and 2.8%, respectively, for the month as demand for most cars dwindled.

Overall, demand for new vehicles in the European Union has remained positive thus far in 2018, largely sustained by the strong performance of passenger cars in several European Union countries. A total of 6.9 million new cars were registered in the European Union during the first five months of 2018, reflecting a 2.4% increase versus the prior year. Year-over-year car registrations increased in Spain, France, and Germany by 10.6%, 3.5%, and 2.6%, respectively. In contrast, the U.K. reported a 6.8% decline in registrations versus 2017.

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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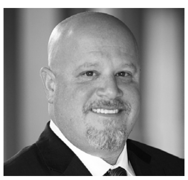

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