THE JOYRIDE IS ENDING

SLOWING FOR THE CURVE
Domestic automakers struggled with year-over-year sales numbers in the latter half of 2017 amid the continued cyclical downturn in demand.

COMPETITION STIFFENS
A flood of nearly new off-lease vehicles entered the used market in 2017, raising the stakes for showrooms and dealers.
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 when the time comes to take your shot with Great American, you’re always—right on the money.
**OEM Parts**

NOLVs for OEM parts were mixed in the latter half of 2017, up or down five percentage points for most companies, depending on shifts in inventory mix and gross margins.

Sales declined up to 20% as many OEM parts manufacturers and distributors experienced softer demand from customers, leading to revised sales projections.

Gross margins were mixed in the second half of 2017, with most margins affected by factors related to each company’s ability to negotiate price adjustments with customers.

Overall inventory levels decreased up to 20% due to the wind-down of certain platforms. Finished goods increased for many companies due to the slowdown in demand.

**Aftermarket Replacement Parts**

NOLVs for aftermarket replacement parts were mixed in the second half of 2017, increasing or decreasing up to three percentage points, depending on individual companies’ shifts in gross margin, weeks of supply, and inventory mix.

Sales of aftermarket replacement parts increased up to 10%, primarily due to overall improvement in market demand.

Nonetheless, with fuel prices slowly back on the rise in the second half of 2017 and expected to creep higher in 2018, many consumers may begin cutting back on their time behind the wheel, reducing overall wear on their vehicles and tempering demand for replacement and repair parts. Cumulative travel totaled 2.9 trillion miles as of November 2017, up 1.3% from the prior year.

Gross margins for aftermarket replacement parts were mixed for many companies in the second half of 2017, 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**

<table>
<thead>
<tr>
<th></th>
<th>OEM Parts</th>
<th>Aftermarket Replacement Parts</th>
<th>Aftermarket Accessories</th>
<th>Tires</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOLVs</td>
<td>Mixed</td>
<td>Mixed</td>
<td>Mixed</td>
<td>Increasing</td>
</tr>
<tr>
<td>Sales Trends</td>
<td>Decreasing</td>
<td>Increasing</td>
<td>Decreasing</td>
<td>Increasing</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>Mixed</td>
<td>Mixed</td>
<td>Consistent</td>
<td>Decreasing</td>
</tr>
<tr>
<td>Inventory</td>
<td>Decreasing</td>
<td>Increasing</td>
<td>Decreasing</td>
<td>Decreasing</td>
</tr>
</tbody>
</table>
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 second half of 2017, primarily driven by increased domestic and overseas competition.

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

Inventory levels decreased up to 20%, primarily due to cash flow considerations, with the lack of replenishment resulting in a negative impact to inventory mix and increased slow-moving inventory levels for certain companies.

TIRES

NOLVs for tire manufacturers and distributors increased up to two percentage points in the second half of 2017, due to improvements in inventory mix.

Many companies saw tire sales increase as much as 8% in response to increased promotional offerings and discounts.

Subsequently, GA observed that gross margins decreased up to five percentage points as a result of the aforementioned increases in promotions and discounts.

Inventory levels decreased up to 5% through the second half of 2017, with any notable shifts attributed to decreases in slower-moving tires.

Trend Tracker
Overview

The U.S. auto industry finished 2017 with sales totaling 17.2 million units, a decrease of approximately 1.8% versus the prior year. Experts attribute the break in the industry’s seven-year sales streak to the cyclical nature of vehicle demand and a growing glut of off-lease vehicles flooding the used car market, drawing buyers away from new rides.

In the second half of 2017, automakers continued to seek ways of incentivizing consumers to make new vehicle purchases with the help of attractive loan terms and accessible credit offers. However, industry analysts anticipate the cyclical nature of the automotive market has finally turned a corner for the worse, as evidenced by continued sales declines across many major automakers. Additionally, a glut of off-lease vehicles flooded the market throughout 2017, creating further strain on new vehicle sales. The growing glut offered a significant selection to consumers who were looking for nearly new off-lease vehicles.

The surplus of gently used vehicles led dealers to negotiate less aggressively to help close deals and move used units. With an increased shortage of vehicles six years old and older, shoppers were able to command top dollar for in-demand trade-ins in 2017.

The continued slowdown in 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.

While the rise in fuel prices may lead some Americans to scale back driving time in 2018, the annual miles driven per vehicle are increasing with each year. Travel on all roads rose 1.1% in November 2017 versus the the prior year, and cumulative travel for 2017 grew 1.3% to 2.9 trillion vehicle miles. Any increase in travel rates, coupled with the growing average vehicle age, inevitably leads to added wear on vehicles. In addition, the number of vehicles aged 16 years or more on the road totaled 62 million in 2017, which will impact vehicle sales in the next three years as vehicle age rises.
The U.S. auto industry’s seven-year sales streak came to an end with the close of 2017, down 1.8% from the prior year. Attractive interest rates and accessible credit proved less than successful sales tactics for many major automakers. In addition, of major concern was the high level of sales incentives offered and the subsequent impact on average transaction prices in 2017, as incentive levels began to match those of late 2008 and early 2009. Lastly, attractive pricing on lightly used vehicles further tempered new vehicle sales.

October 2017 sales declined 1.0% versus the prior year, with industry experts attributing poor sales to the continued increase in fuel prices and the dissipation of pent-up demand. However, sales declines were offset by strong demand for trucks, SUVs, and crossovers, all of which collectively captured 67% of the market in 2017, reaching a multi-year high. This market share is expected to trend even higher in coming years, given the growing popularity of these vehicles and EPA regulations impacting how fleets are calculated.

November 2017 sales rose 1.4% compared to the prior year, positively impacted by a 7.4% increase in full-size pick-up truck sales volumes and increased discounts, but hampered by weaker passenger car sales.

Sales performance dipped once more in December, despite a seasonally adjusted sales rate of 17.7 million units, as lower compact car and mid-size sedan sales tempered overall sales.

Most automakers observed a continued shift in consumer preference toward SUVs and trucks in the second half of 2017, as these larger vehicles provide fuel-efficient and safe options with assistive features, all while offering comfortable and adaptable interiors. Many manufacturers that produce both SUVs and sedans experienced sales gains in only the former category at the close of 2017, which will lead some industry players to drop certain car models altogether in 2018, including the Buick Verano and Chevy SS, among others.

Manufacturers of electric vehicles in the U.S. experienced their 27th consecutive month of sales gains in December 2017, with Tesla Model S and X sales up, as well as strong sales of Chevy’s Bolt and Volt models. Nonetheless, the electric segment, which only represents approximately 5% of the market, is not growing and will remain relatively stagnant for the next three to four years, as technology attempts to catch up to true market affordability.
Domestic Manufacturers

According to an early January press release, Ford posted the only year-over-year sales increase across major U.S. automakers in 2017, up 0.9% versus the prior year. In December 2017, the company reported 240,910 total units sold in the U.S., up 1.3% versus the same month in the prior year. While the automaker’s car and truck sales declined 5.5% and 1.0%, respectively, for the month, overall sales performance was buoyed by Ford’s SUV lines, which posted an 8.0% increase over the prior year.

General Motors fared worse in December 2017, with 308,112 total units sold and a 3.4% sales decline versus the prior year. The decline was partially offset by a 17% year-over-year increase in crossover sales, which crowned General Motors as the fastest-growing U.S. crossover manufacturer. Full-year sales were down 1.4% versus 2016.

In addition to the popularity of General Motors’ Buick Envision, Buick Encore, and GMC Acadia crossovers, Chevrolet remained the automaker’s most successful brand, with retail market share increases year-over-year in 2015, 2016, and 2017 as a result of the Equinox, Trax, and Traverse models.

FCA US LLC (Fiat Chrysler Automobiles) sold a total of 2,059,376 vehicles in 2017, finishing the year with an 8.2% year-over-year sales decline, including a 10.7% decline in December alone. The overall sales decline was attributed to the automaker’s ongoing initiative to reduce sales to the daily rental segment, with the largest planned volume reduction of 75% year-over-year from the Jeep brand. Meanwhile, the company’s Chrysler Pacifica minivan and Fiat 124 Spider lines posted their strongest December sales to date.
CHINA
China remained the world’s largest new automobile market for the ninth consecutive year in 2017, despite the slowest growth in sales volume since 2011, as the rising popularity of SUVs compensated for the lackluster demand for smaller vehicles. According to the China Association of Automobile Manufacturers, the country experienced a 3% year-over-year increase with 28.9 million units sold in 2017, 70% higher than U.S. sales and over five times more than Japan’s sales.

Analysts noted that sales tax rates in China tempered vehicle sales for the year, as tax rates on vehicle sales rose to 7.5% in 2017 after being slashed from 10% down to 5% in late 2015 in a governmental measure to boost auto sales.

China aims to become a leading automaking powerhouse in the next 10 years via 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. Additionally, Guangzhou Automobile Group, which has already formed an alliance with FCA US LLC for Jeep production in China, showcased vehicles for the second year at the 2018 Detroit Auto Show and will target the U.S. market as early as 2019.

China is also aiming to lead the way in green automotive production, as the nation’s environmental regulations and production incentives further spur development of electric vehicles and other environmentally conscious technology. Chinese electric car sales rose more than 80% year-over-year in November 2017, with production and sales up 50% in the first 11 months of 2017 versus 2016.

Additionally, the recent increased investment in the Chinese electric vehicle market may result in the nation’s first world-class auto brand to rival the likes of Audi, BMW, and Mercedes in the global retail market.

Over the next several years, 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. or have been abandoned altogether. As a result, Chinese investment in automotive suppliers will likely increase over the next three years to accommodate the market takeover.

EUROPE
New vehicle sales in the European Union and the European Free Trade Association countries fell 4.8% in December 2017, due to extra days off for Christmas. Demand declined for most European Union and EFTA automakers, with the exception of PSA Group and BMW. European brands that experienced the largest sales drops included Fiat, Nissan, Skoda, and Jaguar.

Despite the rough December, full-year sales were up 3.3% to 15.6 million units in the European Union and EFTA, marking the fourth consecutive year of growth as incentives and SUV lines drew consumers to showrooms. As a result, the region’s 2017 sales were the highest since 16 million units in 2007.

The full ramifications of major events, such as the U.K.’s exit from the European Union, and free trade agreements have yet to be fully understood. As a result, growth in the European market is expected to slow in 2018. Sales in the U.K., which fell 5.7% year-over-year in 2017, will likely remain a drag on the region’s figures amid consumers’ household budget concerns in the wake of the U.K.’s exit from the European Union. Furthermore, the undecided future of diesel technology will hold back demand, as drivers and automakers shift away from diesel-powered vehicles to all-electric models.

SOUTH AMERICA
Many auto markets in South America continued to be plagued by economic crises in 2017, with Brazil experiencing the greatest impact. In contrast, Peru remains an emerging market, which could bolster the region’s industry in coming years. However, experts caution that the performance of Brazil will ultimately decide the fate of South America’s auto industry.
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 extensive list of appraisal experience includes:

- 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 maintains contacts within the automotive industry that we utilize for insight and perspective on recovery values.
Appraisal & Valuation Team

BUSINESS DEVELOPMENT

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

Jennie Kim  
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 S oncini  
Senior Vice President  
Midwest Region  
(773) 495-4534  
bsoncini@greatamerican.com

OPERATIONS

Michael Petruski  
Executive VP, General Manager  
(704) 227-7161  
mpetruski@greatamerican.com

Eric Campion  
Senior Project Manager  
(312) 777-7944  
ecampion@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) 884-3737  
aalexander@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

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

Bill Soncini  
Senior Vice President  
Midwest Region  
(773) 495-4534  
bsoncini@greatamerican.com

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

Jennie Kim  
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

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

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

Adam Alexander  
President, GA Global Partners  
(818) 884-3737  
aalexander@greatamerican.com
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), a diversified provider of collaborative financial and business advisory services through several subsidiaries, including: B. Riley & Co. LLC, a leading investment bank and a FINRA & SIPC member, which provides corporate finance, research, and sales & trading to corporate, institutional, and high net worth individual clients; Great American Group, LLC; B. Riley Capital Management, LLC, an SEC registered Investment Advisor, which includes B. Riley Asset Management, a provider of investment products to institutional and high net worth investors, and B. Riley Wealth Management (formerly MK Capital Advisors), a multi-family office practice and wealth management firm focused on the needs of ultrahigh net worth individuals and families; and Great American Capital Partners, a provider of senior secured loans and second lien secured loan facilities to middle market public and private U.S. companies.

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