NEW VEHICLE SALES
Many domestic automakers struggled with sales numbers into the first half of 2017, while European counterparts experienced healthy gains.

INDUSTRY COMES FULL CIRCLE
A continued slowdown in overall demand suggests the industry is hitting a cyclical rough patch.
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OEM PARTS

NOLVs for OEM parts decreased up to three percentage points in the first half of 2017, despite consistent gross margin indicators. The decreases were primarily attributed to increased excess inventory levels and overall decreases in inventory levels deleveraging fixed expenses.

Sales were mixed, increasing or decreasing up to 10% for most OEM parts manufacturers and distributors, depending on individual companies’ gains or losses on platforms.

Gross margins remained consistent, as most margins are affected by factors unique to individual companies, such as product mix and customer mix.

Inventory levels decreased up to 10% due to the anticipated wind-down of certain platforms.

AFTERMARKET REPLACEMENT PARTS

NOLVs for aftermarket replacement parts were mixed in the first half of 2017, depending on individual companies’ shifts in weeks of supply and slow-moving inventory levels.

Sales of aftermarket replacement parts have been relatively flat, with some companies experiencing slight increases over the prior year. Any sales increases were primarily attributed to general increases in market demand.

With fuel prices slowly back on the rise in 2017, many consumers will cut back on their time behind the wheel, reducing overall wear on their vehicles and tempering demand for replacement and repair parts. Cumulative travel totaled one trillion miles as of April 2017, up 1.5% from the prior year, according to the Federal Highway Administration.

Gross margins for aftermarket replacement parts improved up to three percentage points for many companies, due to a combination of increased sales volumes, improved vendor pricing, and improved product mix.

GA observed that inventory levels for many companies increased up to 10% in preparation of new product launches and a desire for improved fulfillment rates.
AFTERMARKET ACCESSORIES
NOLVs for aftermarket accessories decreased, primarily due to decreases in sales and increases in weeks of supply.

Sales of aftermarket accessories for many companies decreased up to 10% in the beginning half of 2017, primarily driven by the continued transition of larger big-box customers toward direct sourcing, which has tempered demand for aftermarket distributors.

GA observed that gross margins were consistent, as the majority of margins are impacted by individual companies’ factors, such as product mix.

Inventory levels also remained relatively consistent, depending on the company, with some companies decreasing inventory levels in response to lackluster sales trends.

TIRES
NOLVs for tire manufacturers and distributors decreased up to four percentage points in the first half of 2017, primarily driven by increased weeks of supply as a result of sales declines.

Many companies witnessed tire sales decrease as much as 15% thus far in 2017 due to increased tariffs and antidumping and countervailing duty investigations, as well as price decreases throughout the industry.

GA observed that gross margins remained consistent, as the majority of gross margins are affected by unique factors such as product mix.

Inventory levels also remained relatively consistent through the first half of 2017, with any notable shifts attributed to the timing of in-transit deliveries from overseas vendors.

A global supply glut of natural rubber continued to weigh on rubber prices thus far in 2017 despite major producers’ efforts to reduce output.
Overview

While U.S. auto sales remained relatively steady early in 2017, numbers continued to underwhelm analysts for the fourth consecutive month in June. Experts suggest the cyclical nature of the industry is finally catching up after record-breaking demand in 2016 and prior years. As most consumers have already satisfied their need for new vehicles, manufacturers continue to pull in the reins on production.

Slowed 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 cruising on the open road.

Much to the woe of many drivers, slowly rising fuel prices are expected to hold many Americans back from spending additional time behind the wheel in 2017. Travel on all roads rose just 1.2% in April 2017 versus the same period in the prior year, and cumulative travel for the year increased 1.5% to total one trillion vehicle miles. Nonetheless, any increase in travel rates inevitably leads to added wear on vehicles.

Demand for OEM and replacement parts is anticipated to remain relatively steady, albeit below previous standings.

In the first 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 sales declines across many major automakers. Additionally, the full impact of new tariffs and various Department of Commerce antidumping and countervailing duty investigations remains to be seen.
The U.S. auto industry experienced several consecutive months of sales declines in the first half of 2017. Attractive interest rates, easy credit, and other manufacturer incentives proved less than successful sales tactics for many major automakers. In addition, attractive pricing on lightly used vehicles further tempered new automobile sales in 2017.

April 2017 sales declined 4.7% versus the prior year, with experts attributing poor sales to the steady recovery of gas prices and the dissipation of pent-up demand.

May 2017 sales fell 0.5% compared to the prior year, positively impacted by strong full-size pick-up truck sales, but hampered by disappointing passenger car sales numbers. Additionally, May marked the third consecutive month that the industry's seasonally adjusted annual rate totaled less than 17 million units sold.

The downward trend continued for a fourth consecutive month in June 2017, with sales down 3% versus the same period in the prior year, as compact car and mid-size sedan sales continued to temper overall sales performance.

Most automakers continued to witness a shift in consumer preference toward trucks, SUVs, and crossovers in the first half of 2017, as these larger vehicles now provide fuel-efficient and safer options with assistive features, all while remaining comfortable and adaptable. Domestic light truck sales, including SUVs and crossovers, increased 4% thus far in the year versus 2016, with further sales growth expected.

Electric vehicle sales in the U.S. were reported to total over 89 thousand units as of June 2017, up 38.0% over the prior year, and marking 21 consecutive months of sales growth for electric vehicle manufacturers. Tesla continued to lead the pack, followed by General Motors.

### New Vehicle Sales

![Bar chart showing U.S. Auto Sales for 12 Months Ended June 2017 versus 2016 (in Units Sold)]
Domestic Manufacturers

Ford reported 227,979 total units sold in the U.S. in June 2017, a decrease of 5.1% versus the prior year. The automaker’s overall sales declines were slightly offset by its F-Series, Explorer, and Lincoln lines, up 9.8%, 22.7%, and 11.3%, respectively, in June 2017 versus a year ago, which is further indicative of consumer preference for larger vehicles.

General Motors posted similar results for June 2017, with 243,155 total units sold and a 5% sales decline versus the prior year. The company’s mid-crossover, compact crossover, and utility vehicle lines helped offset the overall decrease in sales with a combined 22.0% increase in June 2017 versus the same period in the prior year. Additionally, Buick sales were up 6%, with similarly strong sales performance from General Motors’ Cadillac, Chevrolet, and GMC brands.

FCA US LLC (Fiat Chrysler Automobiles) sold 139,947 vehicles in the U.S. in June 2017, down 7% versus the same period in the prior year. The overall sales decline was largely attributed to the automaker’s initiative to reduce sales to the daily rental segment, with the largest planned volume reduction of 49% year-over-year from the Jeep brand. Meanwhile, the company’s Ram pick-up truck, Ram ProMaster, and Ram ProMaster City lines each posted their strongest June sales to date. While the company’s Jeep sales were negatively impacted by reduced fleet sales in June, the Jeep Grand Cherokee achieved a 21% increase in sales, marking the Grand Cherokee’s best June sales since 2005. The sporty Dodge Challenger and Viper posted sales increases of 24% and 46%, respectively, in June 2017 versus the prior year.

2 U.S. Light Vehicle Retail Sales
Year-to-Date June 2017 versus 2016 (in Units Sold)
AUTOMOTIVE INDUSTRY OVERVIEW
The European automotive industry overall experienced positive results thus far in 2017. Despite continued political instability and economic uncertainty surrounding major 2016 events, such as the U.K.’s exit from the European Union and a referendum in Italy, consumer confidence kept several European markets afloat through the first half of 2017.

New vehicle registrations across the European Union grew by 7.6% in May 2017 versus the prior year, reaching nearly 1.4 million units sold, according to the European Automobile Manufacturers Association.

In July 2017, negotiations were underway for a free trade agreement between the European Union and Japan. European automakers are hopeful for a balanced outcome, which would ease competition across European markets and ratify or eliminate certain tariffs on European exports to Japan. The impact of the European Union-Japan summit remains to be seen, but industry experts remain optimistic.

Industry experts remain guarded in their projections for the remainder of 2017, as the full ramifications of major events, such as the U.K.’s departure from the European Union, and free trade agreements have yet to be fully understood. As such, vehicle sales are forecasted to grow 2% in 2017.

PERFORMANCE BY MARKET
The U.K.’s sales fell 4.8% in June 2017 versus the prior year, totaling 243,454 vehicles. Industry experts cited the U.K.’s current living standard crisis as inflation rises faster than wages. As a result, many consumers are reluctant to initiate major purchasing decisions. Additionally, the U.K.’s uncertain stability after exiting the European Union in 2016 remains a potential factor for reduced demand through the U.K. market.

Europe’s largest market, Germany, experienced a 3.5% decline in June 2017 versus the prior year, which was largely attributed to two fewer selling days in June.

Meanwhile, France experienced a 1.6% sales increase in June with strong gains from Toyota, Daimler, and Ford vehicle sales.

The Southern European markets fared better thus far in 2017. Italy’s sales rose 13% in June 2017 versus the prior year, while Spain reported a 7% increase in June sales, due to increased sales to private customers.

PERFORMANCE BY MANUFACTURER
Most major European manufacturers experienced positive overall performances in 2017. The Volkswagen Group reported 8.4% sales growth in Europe in June, despite the automaker’s initial struggle in the U.S. after the company’s highly publicized emissions scandal. Sales growth was attributed to strong gains from both the Porsche and Audi lines.

The Renault Group, which includes the Renault and Dacia brands, posted an 11% sales increase in June 2017 versus the prior year, outpacing the PSA Group as Europe’s second-largest automaker after the Volkswagen Group.

The PSA Group reported a 4.8% sales increase in June 2017 versus the prior year. Additionally, as France has announced its initiative to reduce carbon emissions and end the sale of gas- and diesel-powered vehicles by 2040, the PSA Group is expected to benefit from tax incentives as the auto group scraps aging vehicle fleets, which have historically tempered the group’s sales growth.
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 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.
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