

# Monitor

## Automotive

VOLUME  
**371**



## SUPPLY CHAIN STILL UNDER TENSION

### LOW ON PRODUCTION

The past year saw a continuation of production bottlenecks amid supply chain issues throughout the industry

### PRICED OUT

The average price of new vehicles continued to climb to new highs in 2022, tempering industry demand

### PLUGGED IN

Electric vehicle sales accounted for a larger piece of the nation's new vehicle sales as more buyers opted to go green

# In This Issue

MONITOR AUTOMOTIVE

[BRILEYFIN.COM](https://brileyfin.com)

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Deals are a moving target with a constantly shifting mix of people, numbers and timing. We are here to simplify this process for you. Our associates are experts at analyzing situations and quantifying values you need on the most complex deals, so you can leverage our extensive industry knowledge to close the deal.

# Trend Tracker

	OEM Parts	Aftermarket Replacement Parts and Accessories	Tires
Net Orderly Liquidation Values	Increasing ▲	Mixed ◆	Mixed ◆
Sales Trends	Increasing ▲	Increasing ▲	Increasing ▲
Gross Margins	Mixed ◆	Mixed ◆	Decreasing ▼
Inventory	Increasing ▲	Increasing ▲	Mixed ◆

## OEM PARTS

Net orderly liquidation values (“NOLVs”) for OEM parts increased as much as nine percentage points in the final half of 2022 due to strong demand, changes in gross margin, and changes in inventory mix. Additionally, higher inventory levels positively impacted NOLVs by leveraging liquidation costs.

Sales of OEM parts increased up to 20% year over year primarily due to increased demand. Sales varied by month for many companies, with certain months exhibiting declines due to parts shortages amid supply chain issues; however, overall sales trends were positive for the second half of 2022.

Gross margins for OEM parts were mixed in the latter half of the year, fluctuating up to three percentage points. Margins were negatively impacted by rising acquisition costs, but positively impacted by many companies successfully passing along price increases to customers.

Inventory levels experienced increases in the final half of 2022, ranging from 5% to 60%, with strong demand for OEM parts spurring several companies to purchase additional inventory in order to mitigate potential supply issues.

## AFTERMARKET REPLACEMENT PARTS AND ACCESSORIES

NOLVs for aftermarket replacement parts and accessories were mixed in the second half of the year, fluctuating up to five percentage points. Both categories were positively impacted by stronger demand and higher margins in recent months, but negatively impacted by changes in inventory mix and increased weeks of supply due to higher inventory levels. However, the increased inventory levels positively impacted NOLVs by leveraging liquidation expenses.

Sales for both aftermarket categories increased up to 20% year over year due to many companies experiencing increased demand and higher sales volumes with existing customers, as well as increases in selling prices amid rising costs.

Gross margins were mixed in the latter half of 2022, fluctuating up to three percentage points. Some companies reported lower margins due to increases in acquisition costs, while others saw improved margins by successfully implementing price increases during the year.

Inventory levels for both categories increased between 20% and 35% in the final half of 2022, due to higher demand and more companies building safety stock to avoid supply chain disruptions. In the most recent months, inventory levels have begun to decline as the supply chain gradually normalizes.

# Trend Tracker

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## TIRES

NOLVs for tire manufacturers and distributors were mixed in the second half of 2022, fluctuating up to five percentage points, driven by many factors including changes in demand, gross margin, inventory levels, and inventory mix.

Sales across the industry increased between 10% and 15% year over year in the final half of 2022, primarily due to rising material and freight costs. Volume demand has fluctuated as a result of various industrial trends and volatile oil prices, among other factors.

Gross margins decreased one to three percentage points for most tire manufacturers and distributors in the latter half of the year due to the aforementioned increases in material and freight costs. Additionally, margins for many companies were negatively impacted by the inability to pass along price increases to customers in a timely manner.

Inventory levels for tires were mixed in the final half of 2022 due to increased prices, rising freight costs, and more companies holding additional inventory to mitigate supply disruptions. In more recent months, companies have reported declines in inventory levels as supply chains slowly stabilize.



# Overview

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As with many other industries, the past year has been anything but a smooth ride for the U.S. automotive sector. Automakers contended with the ongoing global semiconductor shortage, subsequently limited new vehicle inventory, and tempered customer demand amid high vehicle prices, rising interest rates, and inflationary pressures.

With ongoing production issues across most automotive OEMs, new vehicle inventories remained tight this past year. The shortage of new vehicles, paired with significant reductions in OEM incentive spending, led to record-high vehicle prices in 2022. Consumers responded to the higher vehicle prices and lack of incentives accordingly, with 2022 new vehicle sales being at their worst in more than a decade, according to the National Automobile Dealers Association.

Given their critical role in virtually all modern vehicle operations, semiconductors represented one of the most significant challenges to production this past year. Most automakers resorted to stockpiling unfinished vehicles or prioritizing production of certain higher-trimmed models in order to minimize production woes amid the chip shortage.

In more recent months, the supply chain has shown signs of improvement, and many automakers have noted an easing in the semiconductor shortage. Although many automotive dealers have reported improved inventory with the increased chip supply, record-high vehicle prices have still kept many consumers off dealer lots.

While automakers attempted to recapture and exceed the production volumes lost during recent years, a new combination of recessionary fears, inflation, and rising interest rates further weighed down vehicle sales in the latter half of 2022, and industry experts expect these factors will continue to impact the industry's performance into 2023.



# New Vehicle Sales

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New light vehicle sales in the U.S. took a turn for the worse in 2022, totaling 13.7 million vehicles by the close of December, which reflects an 8.2% decline from the prior year and the lowest full-year sales total since 2011. Supply chain issues and the global semiconductor shortage continued to weigh on production schedules for nearly all automakers. Despite these factors, the seasonally adjusted annualized rate for new light vehicle sales totaled 13.3 million units as of December 2022, up 4.6% from 2021 when the global supply chain crisis was wreaking havoc on the industry.

Tighter new vehicle inventory remained a reality for most automakers over the past year as supplier issues forced OEMs to slow or stall production altogether on certain platforms. Some automakers opted to focus production on higher-trimmed light truck models amid limited parts supply. As a result, the light truck segment grew 1.6 percentage points to represent 79.2% of all new vehicles sold in 2022.

Crossover vehicles became an increasingly popular segment over the past year, accounting for 45.2% of all new vehicles sold, due to a winning combination of ample passenger space, high ground clearance, and fuel efficiency over many sedans.

Additionally, alternative-fuel vehicles gained market share in 2022, with hybrid, plug-in, and battery-electric vehicle sales representing 12.3% of all new vehicles sold, up 2.7 percentage points from the prior year.

Nonetheless, with the average transaction price for a new vehicle reaching a record high of \$49,507 in December 2022, new vehicle sales ended on a low note for the year. Dealers held 1.8 million unsold new vehicles in inventory as of December 26, 2022, up nearly 66% from the prior year, according to the National Automobile Dealers Association. Many automakers executives previously pledged to maintain tighter vehicle inventory to avoid heavy incentive spending, even after supply chain issues subside in the future. However, recent unsold vehicle numbers suggest that a return to higher incentive spending may be necessary in 2023, especially as consumers increasingly back away from larger purchases due to recessionary fears, rising interest rates, and inflation.

Meanwhile, the used vehicle market finally began to stabilize in the latter half of 2022 as new vehicle inventory improved, resembling pre-pandemic levels with used vehicle inventory levels holding steady and prices easing from record highs. The average transaction price for a used vehicle was \$27,143 in December 2022, down 3.7% from \$28,193 the prior year.



# Domestic Manufacturers

Overall, the sales performance of domestic automakers continued to be dampened by production issues amid global supply chain disruptions in 2022, with General Motors (“GM”) being a notable exception in the final quarter.

After losing the top spot in sales in 2021 for the first time in nine decades, GM regained the crown with a strong finish of 623,261 units sold in the fourth quarter of 2022, up 41.4% versus the same period in 2021, due to the automaker’s continued improvements in production and supply management compared to the prior year. GM’s full-year sales totaled 2,274,088 vehicles, up 2.5% versus 2021.

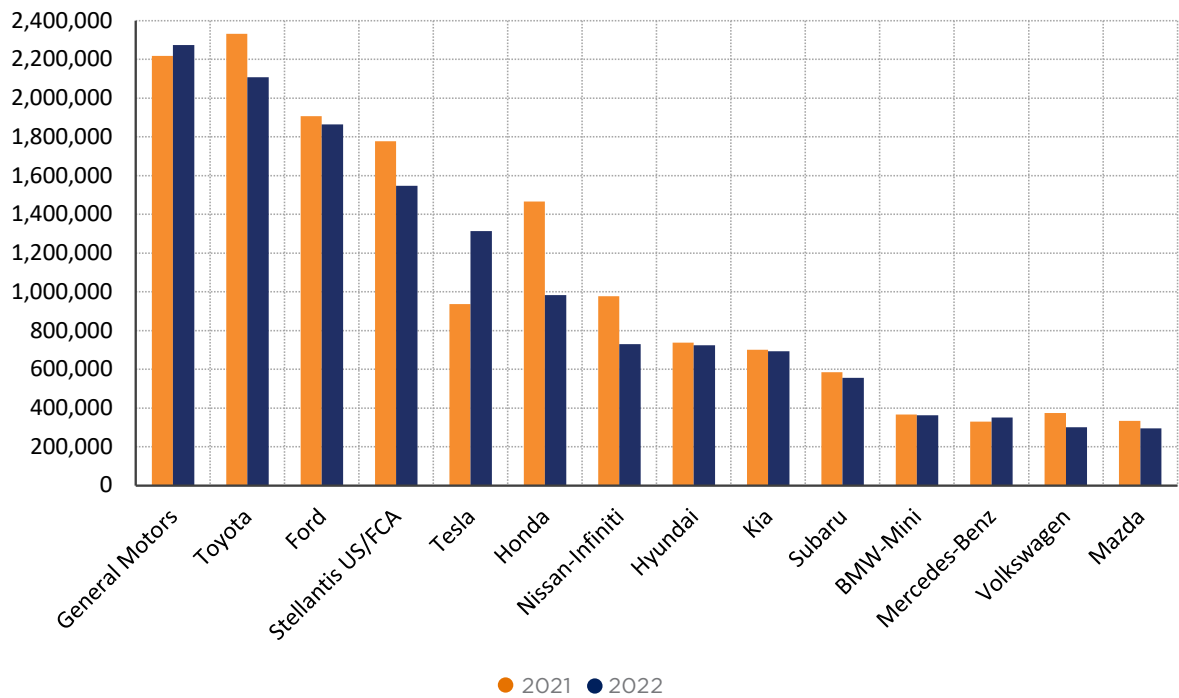
Toyota North America fell back to second place at the end of the year with the automaker’s full-year sales totaling 2,108,458 vehicles, down 9.6% from 2021 as the company continued to struggle with production and supply troubles.

However, Toyota’s sales were still up 13.1% in the final quarter versus the prior year, totaling 536,740 units due to high demand for Toyota’s popular electric vehicle (“EV”) offerings.

Ford reported a total of 483,970 units sold in the final quarter of 2022, down 4.9% versus the same period in 2021 and marking the first time that Ford’s fourth-quarter sales had fallen below 500,000 units in the past six years. Ford’s full-year sales totaled 1,864,464 vehicles, a 2.2% decrease from the prior year due to ongoing supply chain issues.

Stellantis US/FCA reported a total of 347,669 units sold in the final quarter of 2022, down 15.5% year over year. The automaker’s full-year sales totaled 1,547,076 units, down 13% versus 2021. While the company fared best among the top four in navigating supply chain issues, sales were ultimately tempered by a hefty 31% cut to incentive spending.

1 U.S. Light Vehicle Retail Sales by Manufacturer Full Year 2022 versus 2021 (in Units Sold)



# Industry Trends

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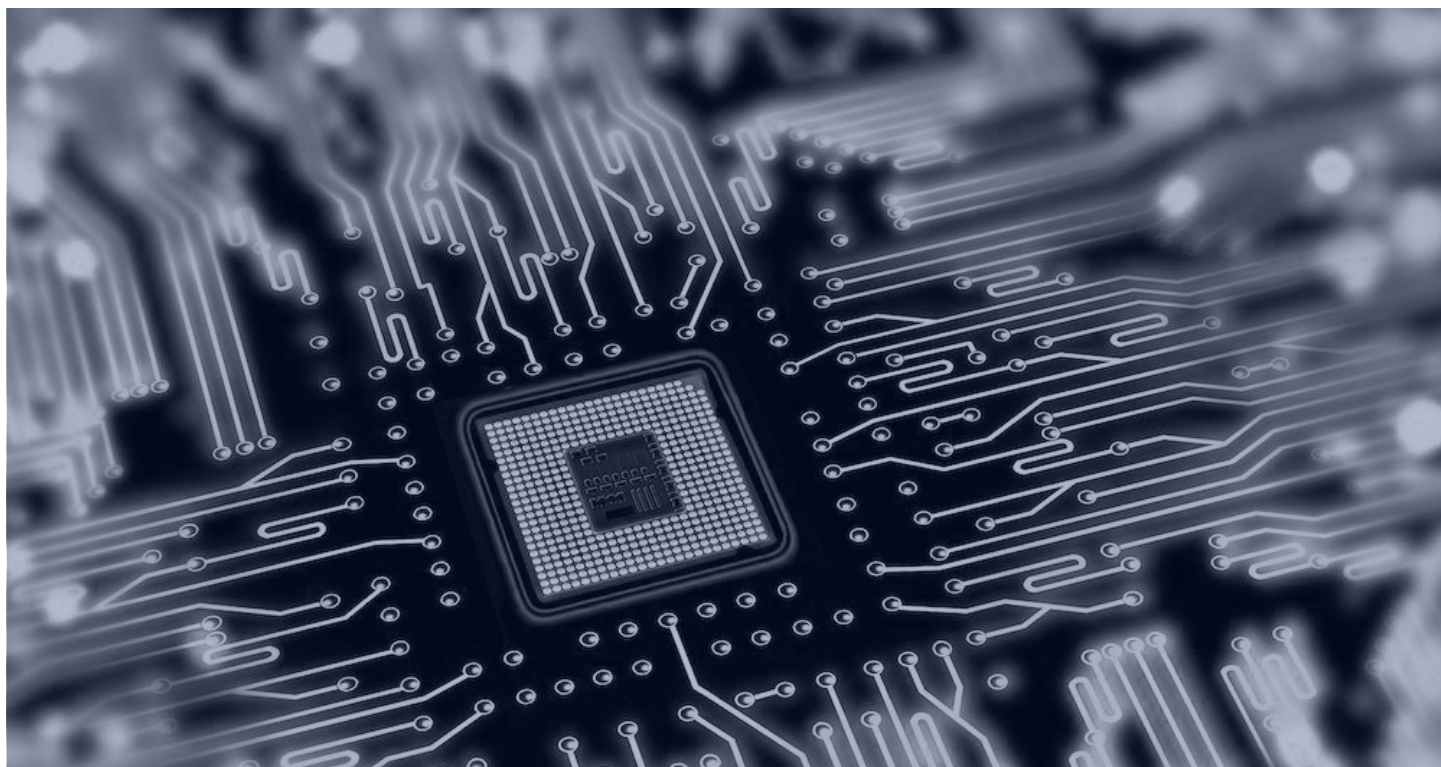
## SUPPLY CHAIN WOES

The latter half of 2022 saw a continuation of the automotive industry's supply chain woes, albeit with some improvements in supply management among a few automotive OEMs. The global shortage of semiconductors, however, remained one of the most significant challenges for the sector, as the critical chips are used in virtually all modern vehicle operations, including fuel-injection systems, infotainment systems, blind-spot monitoring, and driver-assistance technologies.

While the semiconductor shortage has begun to ease in more recent months and automakers such as GM have made significant strides in improving supply management, geopolitical conflicts have had a lasting impact on the global supply chain. Russia's invasion of Ukraine in February 2022 escalated to a war between the two nations, which

has continued into 2023 and resulted in ongoing trade disruptions regarding semiconductors, rare earth metals, and precious metals once supplied by the two warring countries.

In August 2022, U.S. President Joe Biden signed into law the CHIPS and Science Act, a \$52 billion package designed to subsidize companies for investment in domestic chip manufacturing as well as help fund research. As funds will be disbursed over five years, the full impact remains to be seen. However, industry experts remain doubtful that current investments will have a meaningful impact in semiconductor production capacity in the near future, as demand for semiconductors remains on the rise in a multitude of industries and markets, including consumer electronics, artificial intelligence, telecommunications, and electric vehicles, among others.



# Industry Trends

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## AN ELECTRIFIED FUTURE

The latest plans of an electrified future for the automotive industry were well underway in 2022. Although fewer new vehicles were sold in the U.S., EV sales grew by a staggering 65% year over year, representing 5.8% of new vehicles sold in 2022 versus 3.1% in 2021.

High EV prices remained the primary hurdle for most consumers, with the average asking price ending the year at \$61,448, nearly 25% higher than the average December price of non-EV offerings. Nevertheless, the average EV price dropped 5.5% in 2022 versus the prior year, a trend that is only expected to continue as OEMs steadily invest in additional operating efficiencies for domestic EV production. EV giant Tesla's latest plans include a new battery cell production plant as part of a \$3.6 billion investment in the automaker's Gigafactory in Nevada, as well as a \$770 million expansion of its 10-million-square-foot Gigafactory in Texas.

The competition is heating up as nearly every other domestic automaker has announced similar plans to invest in all things electric. For example, Ford recently announced plans to invest \$3.5 billion in a new low-cost battery cell factory in Michigan; however, given the plant size and need for many new employees, the site will not be fully operational until 2026.

Tesla remained the dominant EV player with a 58% share of the EV market and a 40% year-over-year increase in vehicle deliveries in 2022, the electric giant still lost nearly 14% of the market to heavy-hitting EV competition from the likes of Ford, Mercedes-Benz, BMW, Hyundai, Kia, Nissan, and more.

Given the Biden administration's stance on future environmental and inflationary concerns, the Inflation Reduction Act was passed in August 2022 partly to invest \$369 billion in energy security and climate change programs. In addition to several green purchasing incentives, the programs will maintain a two-fold strategy of offsetting the higher cost of EVs with an extension of previous significant tax credits through 2031 on qualifying EVs while encouraging increased manufacturing and final assembly of the vehicles within the U.S. and neighboring ally countries. While the specifics of the tax credits still hinge on upcoming guidance from the U.S. Internal Revenue Service, the programs will ultimately drive a goal of making EVs a more affordable choice for Americans over the next several years.



# Appraisal and Liquidation Experience

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B. Riley Advisory Services 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.

B. Riley Advisory Services' 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.

B. Riley Advisory Services 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, B. Riley Advisory Services utilizes input from our staff of automotive experts.

# Meet Our Team

## AUTOMOTIVE TEAM



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# About B. Riley Advisory Services

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B. Riley Advisory Services works with lenders, law firms, private equity sponsors and companies of all types. Our Advisory Services are a unique mix of Valuation and Appraisal Services including asset-based lending (ABL) Valuations; Restructuring and Turnaround Management; Forensic Accounting and Litigation Support; Operations Management; Compliance, Risk & Resilience Services; and Transaction Support Services including Due Diligence and Quality of Earnings Reviews. B. Riley Advisory Services is the trade name for GlassRatner Advisory & Capital Group, LLC, Great American Group Advisory & Valuation Services, LLC, Great American Group Machinery & Equipment, LLC, and Great American Group Intellectual Property, LLC.



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# Capitalize On The B. Riley Difference

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B. Riley Financial (“B. Riley”) provides collaborative solutions tailored to fit the capital raising and business advisory needs of its clients and partners. B. Riley operates through several subsidiaries that offer a diverse range of complementary end-to-end capabilities.

## ADVISORY SERVICES

Provides specialty financial advisory services to address complex business problems and board level agenda items.

- Appraisal & Valuation Services
- Compliance, Risk & Resilience Services
- Forensic Accounting & Litigation Support
- Operations Management Services
- Restructuring & Turnaround Management
- Transaction Support

## ASSET MANAGEMENT

SEC-registered investment adviser that provides alternative investment management services.

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Provides a full suite of investment banking, corporate finance, advisory, research, and sales and trading services for middle-market public and private companies.

- Capital Markets
- Mergers & Acquisitions
- Restructuring & Recapitalization
- Equity Research
- Sales & Trading
- Fixed Income Investment Solutions

## PRINCIPAL INVESTMENTS

Develops investment opportunities through the acquisition and/or restructuring of companies and corporate assets that present attractive cash-flow driven returns.

## REAL ESTATE SOLUTIONS

Dedicated practice group that provides real estate advisory and valuation services in the U.S. and abroad.

- Sales & Dispositions
- Lease Restructuring
- Real Estate Advisory Services
- Capital Solutions & Acquisitions

## RETAIL SOLUTIONS

Provides asset disposition and large-scale retail liquidations, helping clients liquidate and realize immediate returns from excess inventories and underperforming assets.

- Dispositions
- Inventory Clearance
- Appraisal & Valuation Services
- Real Estate Solutions

## SPONSORS COVERAGE

Provides dedicated resources that drive value with the firm’s alternative asset manager clients by developing and maintaining relationships with middle market financial sponsors.

## VENTURE CAPITAL

Invests in late-stage private growth companies with a path towards public markets.

## WEALTH MANAGEMENT

Strategic investment and wealth solutions to address the various needs of individuals, families, business owners, foundations and endowments.

- Individual Client Services
- Business Client Services

## WHOLESALE & INDUSTRIAL SOLUTIONS

Provides equipment management and capital recovery solutions through a suite of services in various industries.

- Auctions, Private Treaty & Liquidation
- Valuations
- Asset Planning & Recovery Strategies