

# Monitor

## Automotive



VOLUME  
**361**

## HIGH DEMAND, LOW SUPPLY DRIVE MARKET

### SHORTAGES CONTINUE

Ongoing material constraints, labor shortages, and other supply chain disruptions tempered production

### SALES UNDERWHELM

Sales for several automakers fared poorly in the second quarter of 2022 amid limited new vehicle inventories

### PRICES ON THE RISE

Average new vehicle prices reached an all-time high as demand continued to outpace supply

# In This Issue

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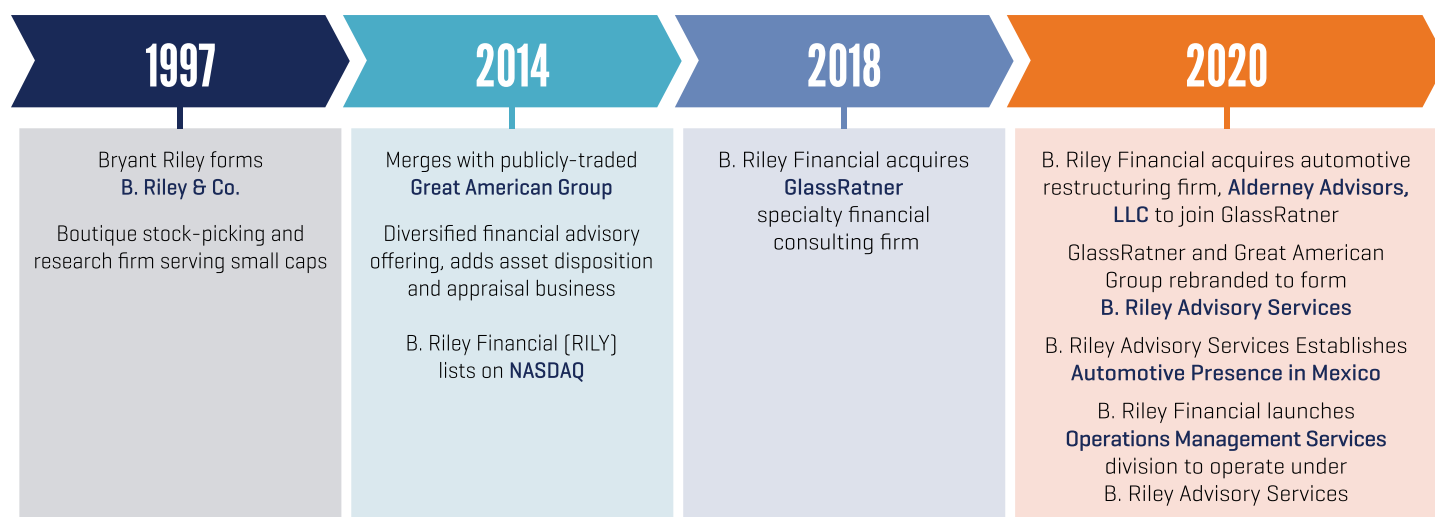
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Deals are a moving target. A constantly shifting mix of people, numbers and timing. We're here to simplify this process for you. Our experts are dedicated to tracking down and flushing out the values you need even on the most complex deals, so you can leverage our hard-won knowledge to close the deal.

# B. Riley Advisory Services Creates Powerhouse Automotive Group With Key Additions



## B. Riley Financial Acquires Automotive Restructuring Firm, Alderney Advisors - [View Announcement](#)













Alderney Advisors specializes in supply risk management, financial restructuring and turnaround situations, transaction advisory, strategic advisory, and dispute resolution for the automotive manufacturing and supplier industry. Its clients include major automakers in North America, Europe and Asia. Alderney served as the leading financial advisory firm for global automakers in the largest vehicle recall in the automotive industry's history.

## B. Riley Financial Adds New Capabilities to Advisory Group; Launches B. Riley Operations Management Services - [View Announcement](#)

B. Riley Advisory Services acquired Anchor Resource Management Consulting, LLC to further expand its service offerings, officially launching B. Riley Operations Management Services. The group is focused on assisting middle market manufacturing companies that are seeking ways to produce more efficiently and operate leaner at any point during their business life cycle.

Read more about B. Riley Financial's full suite of services on page 13.

# Trend Tracker

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

## OEM PARTS

Net orderly liquidation values (“NOLVs”) for OEM parts were mixed in the first half of 2022, fluctuating up to four percentage points. NOLVs were negatively impacted by compressed margins, but positively impacted by recent upticks in demand and improved inventory mix, as companies generally carried more normalized levels of finished goods.

Sales of OEM parts increased up to 35% year-over-year due to increased demand and the comparison period continuing to include plant shutdowns driven by the COVID-19 pandemic and subsequent supply chain issues.

Gross margins for OEM parts generally decreased up to four percentage points in the first half of the year, due to increased material, labor, and overhead costs, as well as many OEM parts manufacturers experiencing a lag in passing along price increases to customers. However, some companies are seeing some margin relief in the most recent months as price increases finally take hold.

Inventory levels increased between 15% and 35% for many companies in the beginning half of 2022, resulting from increases in material costs and demand. Many companies also built up inventory to avoid supply chain issues.

## AFTERMARKET REPLACEMENT PARTS AND ACCESSORIES

NOLVs for aftermarket replacement parts and accessories were mixed in the first half of 2022, fluctuating up to five percentage points. Both categories were positively impacted by stronger demand in recent months, but negatively impacted by margin compression and high levels of supply, particularly regarding in-transit goods.

Sales of aftermarket replacement parts and aftermarket accessories increased as much as 25% year over year, due to increased costs and subsequently higher pricing, as well as robust demand for replacement parts.

Gross margins decreased up to four percentage points in the first half of the year, driven by increased material, freight, and labor costs. However, some companies were still able to maintain margins despite cost increases.

Inventory levels for aftermarket replacement parts and accessories increased between 10% and 20% thus far in 2022 due to rising costs and increased inventory purchases to mitigate supply chain disruptions.

# Trend Tracker

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## TIRES

NOLVs for tire manufacturers and distributors decreased up to four percentage points in the first half of 2022, resulting from increases in supply and elevated levels of in-transit inventory, with many companies noting increases in freight and duty expenses and slight decreases in margins.

Sales across the industry increased between 15% and 30% year-over-year in the beginning half of 2022, primarily due to rising input costs. More recent unit sales were flat or down in some cases, as demand was particularly strong during the same period in 2021.

Gross margins decreased one to two percentage points for most tire manufacturers and distributors in the first half of the year, due to rising input costs. Many companies were typically able to pass along price increases to customers, albeit with minor delays. Additionally, a healthier level of supply has led to increased competition.

Inventory levels for tires increased 45% or more thus far in 2022 due to increased material costs. Furthermore, many companies increased inventory purchases to hedge against ongoing supply chain issues.



# Overview

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Although demand for new cars and trucks has remained strong in the first half of 2022, global supply chain challenges continue to weigh on vehicle production and delivery for U.S. automakers. Furthermore, rising interest rates, high inflation, and historically low consumer sentiment have steered many potential buyers away from new vehicle purchases.

For the automotive sector, as with so many industries, 2022 has not been a smooth ride. Material and labor shortages have resulted in production and delivery issues for nearly all vehicles and OEM platforms, which in turn have led to low new vehicle inventories and subsequently underwhelming sales compared to the same period in the prior year.

The past six months have also brought a slew of other industry hurdles, such as pandemic-related manufacturing plant shutdowns in China, a war in Ukraine that has created trade conflicts for the U.S. and global economy, and significant increases in freight costs.

Among many material shortages, semiconductors continue to be one of the most significant challenges to production this year. Automakers have had to temper manufacturing efforts or stockpile unfinished cars and trucks at plants while awaiting the arrival of new chips to complete their vehicles.

Although dealer inventories have gradually begun to recover with increased semiconductor production, demand has continued to outstrip supply, pushing average vehicle prices to new highs.

Furthermore, rising interest rates, inflationary concerns, and general economic uncertainty have many consumers backing away from large purchases or resorting to more affordable options within the used vehicle market.

Although automotive OEMs have attempted to recapture and exceed the production volumes lost during the past two years, industry experts expect current supply chain disruptions will continue to challenge the industry well into the next year.



# New Vehicle Sales

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Car and light truck sales declined again in the U.S. for the first half of 2022, down more than 19% versus the same period in the prior year, as the global semiconductor shortage continued to temper production and supply levels across the industry. According to the most recent data from Cox Automotive, the seasonally adjusted annualized rate for new light vehicles totaled 13.3 million units as of August 2022, up nearly 4% from 2021 but roughly the same as July 2022.

Limited new vehicle inventory has remained a severe issue for automakers since last year. Additionally, rising interest rates and historically low consumer sentiment have also steered many potential buyers away from new vehicle purchases thus far in 2022. Further, soaring gas prices in recent months have made many individuals more conservative with their driving habits, which has especially hampered demand for vehicles with less-than-spectacular fuel economy.

Meanwhile, higher asking prices for new vehicles have also dampened demand. Dealers held nearly 1.1 million unsold new vehicles in inventory in July 2022, up 2% from the prior year, according to the National Automobile Dealers Association. Kelley Blue Book reported that the average transaction price for a new vehicle rose to an all-time high of \$48,301 in August 2022.

Due to the growing cost of new vehicles amid inventory shortages, an extraordinary number of consumers have flocked to the used vehicle market over the past year, which has led to several consecutive months of price increases for used cars and trucks. The average transaction price for a used vehicle reached \$33,341 in June 2022, with buyers paying an average of \$10,046 more than when used vehicle prices were normal prior to the pandemic and global supply chain issues of the past two years.

Although supply shortages have added to industry demand in 2022, inflation has remained a primary concern for many buyers. According to the U.S. Bureau of Labor Statistics, inflation hit 9.1% on a year-over-year basis in June 2022, reflecting a 40-year high. Consumer prices rose more slowly at 8.3% in August on a year-over-year basis, but actually increased sharply from the previous month after excluding volatile food and energy prices.

Overall, the first half of 2022 continued to deliver high profits and low OEM incentives amid lean inventory levels. As a result, many auto executives are pledging to continue the trend of tighter vehicle inventories once supply chain issues eventually subside.



# Domestic Manufacturers

While strong demand persisted for new cars and trucks in the beginning half of 2022, the sales performance of most domestic automakers continued to be dampened by production issues amid the global supply chain crisis.

General Motors (“GM”) reported a total of 582,401 units sold in the second quarter of 2022, down 15% versus the same period in 2021. The automaker’s second-quarter results proved slightly better than expectations of industry analysts due to GM’s modest improvements in production and supply compared to the prior year.

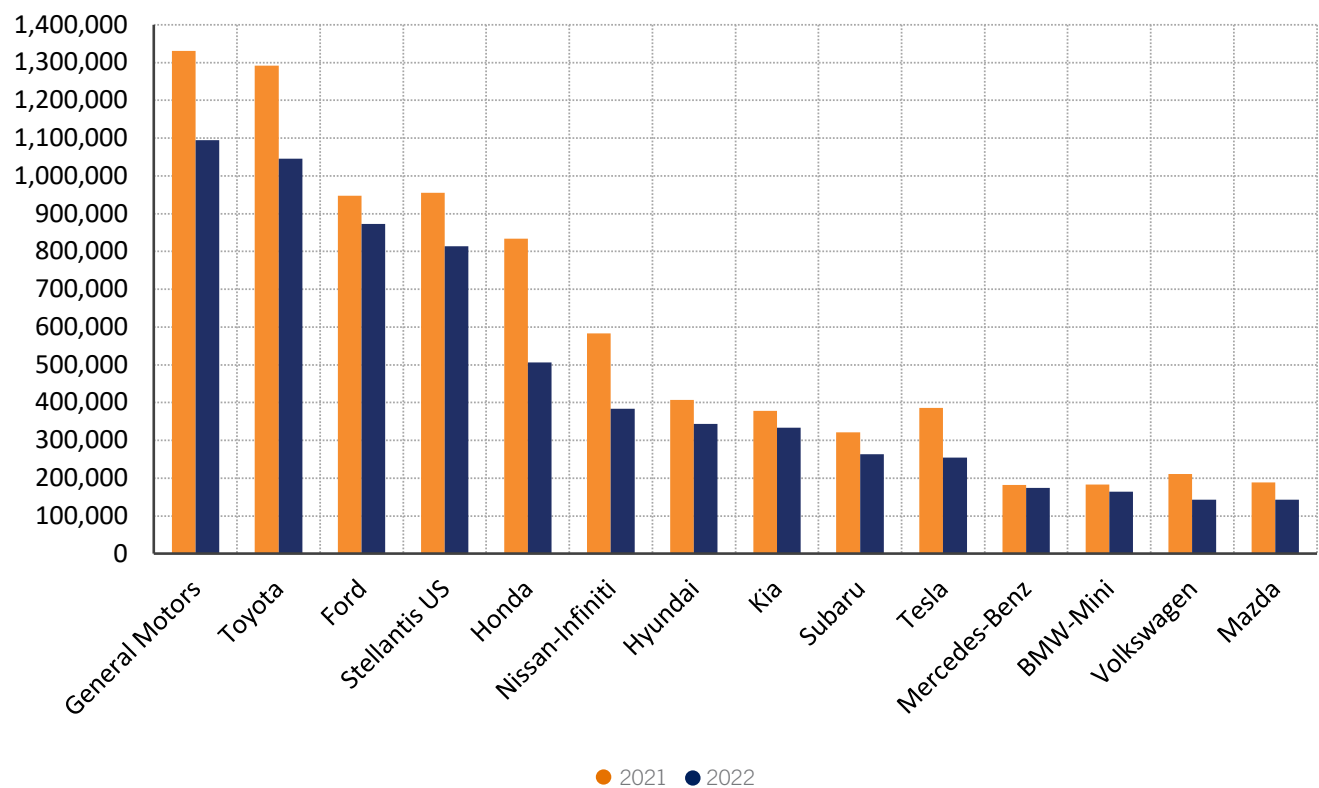
Toyota’s North America division reported a total of 531,105 units sold in the second quarter of 2022, down 23% versus the prior year, due to ongoing inventory shortages amid global supply chain issues. More recently, Toyota’s sales totaled 169,626 units in August 2022, down nearly 10% versus 2021.

Toyota is hopeful for better sales in the coming months with the recent launch of several new models, including the battery-electric bZ4X, hybrid Tundra, and Lexus LX.

Ford reported a total of 480,558 units sold in the second quarter of 2022, up 2% versus the same period in 2021, when the automaker was particularly struggling with inventory amid the global semiconductor shortage. According to Cox Automotive, Ford’s overall market share grew to 13.7% at the end of the quarter, up nearly three points from the prior year.

Stellantis US reported a total of 408,521 units sold in the second quarter of 2022, down 16% versus the same period in 2021, due to ongoing supply constraints.

**1** U.S. Light Vehicle Retail Sales by Manufacturer  
Year-to-Date June 2022 versus 2021 (in Units Sold)



# Industry Trends

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## POST-COVID-19 IMPACTS

The first half of 2022 continued to bring post-COVID-19 impacts to the global supply chain, including pandemic-related shutdowns in China, the war between Ukraine and Russia, ongoing labor and material shortages, and significant increases in material, labor, and freight costs. Although automotive OEMs are trying to recapture and exceed the volumes lost during the past two years, ongoing shortages in materials thus far in 2022 have continued to cause considerable downtime at assembly plants and are keeping the industry sharply focused on managing material inputs.

While government funding programs such as the Paycheck Protection Program in the U.S. and lender accommodations provided much-needed assistance to the middle market supply base in recent years, those sources of funding have been exhausted in 2022. In turn, many suppliers have turned to their customers for assistance to cover surging prices on manufacturing inputs.

More than ever, continued attention to financial and operational efficiencies are key to long-term viability in the “new normal” of continuous substantive challenges and changes both for automotive OEMs and suppliers.

## SEMICONDUCTOR SHORTAGE

While the first half of 2022 continued to be plagued with ongoing supply chain issues, the vulnerabilities of many supply chains began to show as early as February 2020 when the production of components from China was severely disrupted by the initial surge of COVID-19.

Among supply chain challenges, one of the most difficult for the automotive industry has been the global shortage of semiconductors, which are critical chips used in modern vehicles for fuel injection systems, infotainment system control, tire pressure and blind spot monitoring features, and an ever-growing list of driver assistance technologies, among other vital vehicle functions.

The shortage is the direct result of semiconductor manufacturers temporarily transitioning production to consumer-electronics processors in 2020 during the shutdown of the global automotive industry. However, automotive production plants rebounded quickly from the onset of the pandemic, and the semiconductor industry has not had sufficient capacity to cover increasing needs from both automotive and consumer industries.

Additionally, the chip shortage is exacerbated by the fact that global supply is fulfilled by a small pool of manufacturers. Any operational setbacks, such as the production plant fire in Japan in 2021, have only led to further supply bottlenecks.

Moreover, Russia's invasion of Ukraine in February 2022 has escalated to a war between the two countries, which has resulted in significant complications to the global semiconductor supply chain, among other industries. As Russia supplies roughly 30% of the world's palladium and Ukraine is a major supplier of wiring harnesses and purified neon gas, current war conditions have made global trade for these vital semiconductor materials difficult or impossible.

Although semiconductor suppliers have gradually ramped up production efforts in 2022, industry experts are doubtful that current investments in capacity will alleviate the supply shortage anytime soon due to ever-increasing demand from manufacturers in the consumer electronics industry.

Additionally, as electric vehicles continue to become the focal point of automakers and driver assistance technologies advance, demand for semiconductors within the automotive sector is expected to grow exponentially.

In August 2022, U.S. President Joe Biden signed into law the CHIPS and Science Act, a \$52 billion package aimed 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.

# 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.

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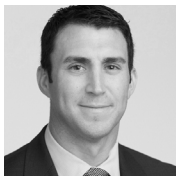
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# About B. Riley Advisory Services

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B. Riley Advisory Services works with lenders, law firms, private equity sponsors and companies of all types including Automotive OEMs and suppliers. 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, B. Riley 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

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.

B. Riley recently announced the acquisition of FocalPoint Securities, LLC, a leading middle market M&A advisory investment bank. FocalPoint, now a division of B. Riley Securities, Inc. significantly enhances B. Riley’s debt capital markets and financial restructuring.



RANK  
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B. Riley Financial ranked No. 2 on FORTUNE 100 Fastest Growing Companies 2021 list based on revenue growth rate, EPS growth rate, and three-year annualized total return for the period ended June 30, 2021. Fortune. © 2021 Fortune Media IP Limited All rights reserved.

## 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.

## INVESTMENT BANKING & CAPITAL MARKETS

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
- Restructuring & Recapitalization
- Mergers & Acquisitions (M&A)
- 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 financial advisory services 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