B|RILEY Advisory Services

OCTOBER 2023

Monitor
Automotive

SUPPLY BACK ON TRACK

PRODUCTION UP
Automakers increased production to meet pent-up demand in the first half of 2023 as supply chain issues eased

IN HIGH DEMAND
New vehicle sales have been stronger than expected due to robust fleet sales and the continued resilience of buyers

ABUZZ WITH OPTIONS
With more electric vehicle choices on the market than ever, electric vehicle sales hit new heights in the first half of 2023

In This Issue

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379

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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	Mixed ▲▼	Mixed ▲▼	Mixed ▲▼
Sales Trends	Increasing ▲	Increasing ▲	Decreasing ▼
Gross Margins	Mixed ▲▼	Mixed ▲▼	Decreasing ▼
Inventory	Decreasing ▼	Increasing ▲	Decreasing ▼

OEM PARTS

Net orderly liquidation values ("NOLVs") for OEM parts were mixed in the first half of 2023, fluctuating up to three percentage points, which was largely based on changes in gross margin and inventory mix.

Sales of OEM parts increased 10% to 25% year over year primarily due to increased OEM production volumes, though some outliers existed depending on individual OEM programs and models served.

Gross margins for OEM parts were mixed in the first half of the year, fluctuating up to two percentage points. Although the first several months of 2023 saw significant upward pressure as price increases fully materialized, the pressure has since leveled off.

Inventory levels for OEM parts experienced decreases of 10% or more in the first half of 2023, due to improved supply chain management alongside increased OEM production volumes.

AFTERMARKET REPLACEMENT PARTS AND ACCESSORIES

NOLVs for aftermarket replacement parts and accessories were mixed in the first half of the year, fluctuating up to 10 percentage points.

This segment tends to experience greater fluctuations due to the wide variety of product categories and customer bases served. Large swings in NOLVs were driven by changes in excess inventory levels, inventory mix, and gross margins.

Sales increased 5% to 15% year over year due to increased demand and higher selling prices. However, sales in the most recent months have decreased as several national retailers temporarily reduced their purchasing to work down inventory.

Gross margins were mixed in the first half of 2023, fluctuating up to three percentage points. Some companies reported lower margins due to reductions in pricing and increased labor costs.

Aftermarket inventory levels increased 10% to 15% in the first half of the year. While consumer demand remains strong, many companies had significant inventory on hand after supply chain delays, and some retailers temporarily reduced their purchasing, which left distributors with higher inventory levels.

Trend Tracker

TIRES

NOLVs for tire manufacturers and distributors were mixed in the beginning half of 2023, fluctuating up to three percentage points, primarily driven by changes in gross margins and inventory levels.

While volumes have been fairly flat in the first half of the year, sales across the industry decreased up to 5% year over year, primarily due to deflationary pressure on prices. Manufacturers have generally reduced prices or increased discounting on tires.

Gross margins decreased one to three percentage points for most tire manufacturers and distributors in the first half of 2023 due to decreases in recent pricing. Declines in margins for some distributors have been partially offset by support from manufacturers.

Inventory levels for tires decreased 5% to 10% in the first half of the year as the supply chain normalized and companies were able to sell through delayed shipments of products that arrived within the same timeframe, which had previously spiked inventory levels across the industry.

Overview

The first half of 2023 was marked by the resilience of automakers and the greater economy as new vehicle sales exceeded expectations despite continued supply constraints, rising interest rates, and some of the highest vehicle prices ever.

New vehicle sales proved that demand is alive and well for the U.S. automotive industry in 2023, reaching a total of nearly 7.7 million units sold over the first six months, a 14% increase versus the same period in 2022. As supply chain issues gradually ease, automakers have increased production to meet pent-up demand across the country.

Fleet sales have been one of the strongest drivers behind the industry's comeback. Collective sales into large rental, government, and commercial fleets saw 12 consecutive double-digit increases from July 2022 to June 2023, with sales into rental, government, and commercial fleets up 85%, 41%, and 15%, respectively, year over year.

On the retail front, dealers still managed to put plenty of buyers into new cars, trucks, and SUVs despite high vehicle prices. Transaction prices have trended up 3% for the first half of 2023 despite steady increases in manufacturer incentives. As a result, consumers spent nearly $282 billion on new vehicle purchases in the first half of the year, up 8% from the same period in 2022.

Increased vehicle supply and elevated interest rates have led to a decline in dealer profits; however, those profits still exceeded pre-pandemic levels, with total retailer profit per unit reaching $3,692 in June 2023. While this figure is 27% below year-ago profits, retailer profit per unit in June 2023 was still more than double the amount in June 2019.

Dealer profits have declined as fewer vehicles are being sold for prices higher than the manufacturer's suggested retail price. Only 30% of new vehicles were sold above MSRP in June 2023, down from a high of 49% of new vehicles during the same period in the prior year.

Battery-electric vehicles ("BEVs") enjoyed a record quarter in Q2 2023 with nearly 300,000 units sold, as the industry continues to pave the way for its electrified future and ambitious all-electric goals.

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New Vehicle Sales

The industry saw a surprising turnout for new light vehicle sales in the U.S. in the first half of the year, with sales increasing more quickly than projected as supply chain issues continue to ease. The seasonally adjusted annualized rate for new light vehicle sales grew to 15.7 million units in June 2023, up from the previous forecast of 15.2 million, as the market delivered approximately 7.7 million vehicles in June, up 12% versus the same month in 2022.

New vehicle sales have been stronger than expected due to a substantial increase in fleet sales and the continued resilience of U.S. buyers despite extremely high vehicle transaction prices and record-high auto loan rates.

Light trucks and SUVs continued to dominate dealer showrooms in the first half of 2023, accounting for 77.7% of all new vehicles sold. In particular, crossovers have become America's preferred vehicle due to the segment's winning combination of cabin space and ground clearance. Additionally, high prices at the pump in 2023 have sent a growing number of buyers looking for relief in fuel-efficient rides to the crossover segment.

Tighter new vehicle inventory has been an ongoing theme for the past two years as supplier issues forced OEMs to slow or stall production altogether on certain platforms, and limited new vehicle availability became the key driver behind new vehicle price inflation. However, industry experts believe the industry is reaching a turning point in 2023 where supply and demand will gradually become more predictable again, with smaller changes in sales and fewer instances of fluctuations in vehicle pricing as inventory levels normalize in line with improved supply chain management.

The average transaction price ("ATP") of a new vehicle was $48,808 in June 2023, only 1.6% higher than the ATP in June 2022 and marking the smallest year-over-year price increase since the beginning of the pandemic. The slight increase was mainly attributed to higher luxury vehicle prices. New vehicle ATPs for July and August 2023 were $48,334 and $48,451, respectively, indicative of a more stable price environment. Experts previously expected new vehicle pricing would begin trending downward in the coming year as more automakers build inventory and find a balance in supply and demand. However, industry projections may be revised with the impact of the ongoing labor strike.

Meanwhile, used vehicles are no longer the volatile market that had surfaced with the pandemic and chip shortage in recent years. While used vehicle inventory and prices remain higher than pre-pandemic levels, demand for used rides is dropping as new vehicle availability improves. ATPs of used vehicles for June and July 2023 were $27,147 and $27,028, respectively, down from year-ago levels.

Domestic Manufacturers

General Motors ("GM") finished the second quarter with 691,978 vehicles sold, up 18.8% versus Q2 2022. All four GM brands fared well, with sales for Chevrolet, Cadillac, Buick, and GMC up 17%, 15%, 48%, and 18%, respectively, year over year. GM's YTD June 2023 sales totaled 1,295,186 vehicles, up 18% versus the same period in 2022.

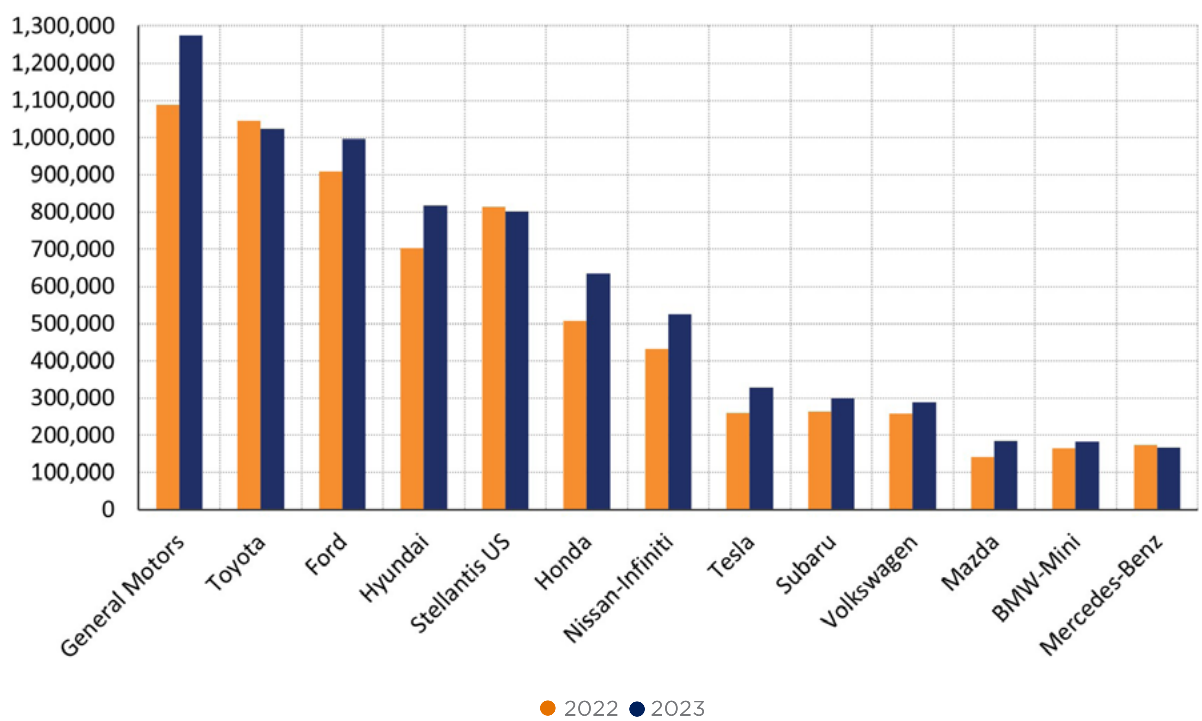
Toyota North America sold 568,962 vehicles in Q2 2023, up 7% versus 2022 due to ongoing efforts in productivity improvement with suppliers, improvement in the sourcing of semiconductors, and growing popularity of Toyota's lineup of battery-electric vehicles. Toyota continued to lead the charge in electric vehicle offerings among all automakers with 24 models available across the Toyota and Lexus brands.

Despite recent positive sales, Toyota's YTD June 2023 sales were still down 0.7% versus the prior year amid continued supply constraints.
Ford sold 527,905 vehicles in Q2 2023, up 10% versus 2022 but still below pre-pandemic highs that were over 600,000 units in the same quarters of 2018 and 2019. Ford's Q2 success was largely driven by slashed pricing of the electric F-150 Lightning and Mustang Mach-E models ahead of new electric truck launches from Tesla and Chevrolet. Ford's YTD June 2023 sales increased 10% from the same period in 2022 due to robust truck sales.

Stellantis US/FCA slipped to fifth place among top U.S. automakers as Hyundai sped ahead in Q2 2023 with a 15% increase in total sales across the Hyundai, Kia, and Genesis brands.

Nonetheless, Stellantis US/FCA sold 434,648 vehicles in Q2 2023, up 6% versus 2022 and marking the first quarter since Q2 2021 that the automaker posted a year-over-year increase in volume. The growth was attributed to increased demand for Chrysler Pacifica, Dodge, and Ram.

1 U.S. Light Vehicle Retail Sales by Manufacturer
Year-to-Date June 2023 versus 2022 (in Units Sold)



Industry Trends

CHARGING AHEAD WITH ELECTRIC

With more electric vehicle ("EV") choices on the market than ever, EV sales in the U.S. hit a new high in the first half of 2023 with more than 670,000 units sold. BEVs represented over 80% of those sales, and now that EV options are available in several vehicle classes, more buyers are finding their way into all-electric versions of their favorite cars and trucks.

The EV segment has grown more popular in the past year as more individuals seek ways to save money in the wake of the pandemic and past few years of economic uncertainty, with ongoing exorbitant gas prices being top of mind for many commuters. Additionally, increased awareness of the impacts from climate change in recent news have led more people to make new EV purchases in an effort to reduce their emissions and overall carbon footprint.

California historically has been home to more than half of all EVs sold in the U.S. due to the size of the state's population and pro-environmental legislation. However, in the past two years, EV sales in Florida and Texas have caught up, dropping that fraction for California to roughly one-third of the country's EV sales.

The major automakers in Detroit have largely remained on track with ambitious EV goals in 2023. GM recently reiterated its intent to double EV production in the second half of the year to 100,000 units, as long as supply chain and labor issues continue to improve.

Strong EV demand in the market has been highlighted by inventory backlogs for many makes and models during the second quarter of 2023, which is only expected to grow as competition increases among automakers and vehicle classes.

EV prices have always been the largest hurdle for most consumers, with the historical average asking price pushing $64,000 for popular models. However, significant changes in manufacturing pricing in 2023 have dropped the average price to $53,470, which is now below the average in 2020.

Industry Trends

Most notably, long-time EV leader Tesla introduced several price cuts to some of its models through the first half of the year in an effort to boost vehicle deliveries and make all of its Model 3s eligible for full federal EV tax credits. Tesla reported 466,140 vehicles sold in Q2 2023, up 10% from the prior quarter and 83% above the same period in 2022. Tesla's sales are estimated to be up 26% in Q3 2023 versus the same period in 2022 as further price cuts have made the EV giant's cars more affordable to a larger pool of buyers.

LABOR CHALLENGES

Recently, a historical labor strike has developed in the U.S. automotive industry. The United Auto Workers ("UAW") union represents a group of more than 400,000 active members and 580,000 retired members in the U.S., which includes the unionized factories of GM, Ford, and Stellantis US, among other plants. The three automakers collectively employ over 145,000 UAW members and produce nearly half of all vehicles manufactured in the U.S.

On September 15, 2023, the UAW union began a strike against GM, Ford, and Stellantis US after the three automakers failed to reach new contract agreements with the union by the September 14th deadline. The strike, headed by a new union president, seeks to gain a 40% wage hike over the next four years, cost-of-living increases, greater retirement benefits, and full pay for a shortened workweek for union members. Counteroffers have been well below the union's demands, and the turmoil between union workers and the auto giants continued to build through the weeks.

The strike was strategically introduced across three major plants that produce popular vehicle models. Among those vehicles are GM's Chevrolet Colorado and GMC Savana; Ford's Ranger and Bronco; and Stellantis US' Jeep Gladiator and Wrangler.

The three automakers have implemented furloughs and indefinite layoffs for many impacted plants, a trend that is expected to continue as the strike expands to additional factories amid faltering talks.

On September 26, 2023, President Biden met with workers at the Detroit picket line in an unparalleled show of support for organized labor by a modern president, encouraging workers to "stick with it."

Developments of the strike and subsequent declines in or halts to production are expected to impact nearly 700 auto suppliers, and will ultimately have a ripple effect on demand in other major markets such as steel and textiles. However, the full impact of the strike on Detroit's automakers and workers, as well as upstream and downstream markets, remains to be seen.

Appraisal and Liquidation Experience

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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