B | RILEY Advisory Services

MARCH 2024

Monitor
Automotive

ROUNDING THE CORNER

SURPRISE IN SALES
New vehicle sales in 2023 were stronger and steadier than anticipated due to robust crossover and fleet demand

ON THE MOVE
Hyundai Motor Group sped past Stellantis U.S. and Honda in sales to secure a spot as one of the top five U.S. automakers

QUITE A JOLT
U.S. electric vehicle sales broke records in 2023 with new product launches, more inventory, and higher incentives

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B | RILEY Advisory Services

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

OEM PARTS

Net orderly liquidation values ("NOLVs") for OEM parts were mixed in the final 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 20% year-over-year primarily due to increased OEM production volumes, price increases, and slower sales in the prior year amid product shortages.

Gross margins for OEM parts increased up to three percentage points in the latter half of 2023 due to significant price increases. The increases in margins were partially offset by increases in labor costs.

Inventory levels for OEM parts were mixed in the second half of 2023, fluctuating up to 10% due to multiple factors such as demand for certain products, labor shortages, and product line openings and closures.

AFTERMARKET REPLACEMENT PARTS AND ACCESSORIES

NOLVs for aftermarket replacement parts and accessories were mixed in the latter half of the year, fluctuating up to five 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, gross margins, and market demand.

Sales increased up to 5% year-over-year due to increased demand and higher selling prices. However, sales have softened in the most recent months for certain industry segments, such as trailer and recreational vehicle ("RV") aftermarket replacement parts, due to price reductions after several years of price increases.

Gross margins decreased in the final half of 2023, fluctuating up to four percentage points, due to higher wages, price reductions after multiple years of price increases, and some retail customers slowing their purchasing. Additionally, many companies offered discounts to maintain sales levels through the final months of the year.

Aftermarket inventory levels decreased up to 10% in the latter half of 2023. While consumer demand remained strong, many retailers temporarily reduced their purchasing amid general uncertainty in the industry, while companies closely monitored inventory levels and reduced purchases to avoid any increases to excess inventory levels.

Trend Tracker

TIRES

NOLVs for tire manufacturers and distributors decreased in the final half of 2023, fluctuating up to two percentage points, primarily driven by lower demand and related changes in gross margins and inventory levels.

Sales volumes for passenger and light truck tires decreased between 1% to 5% in the second half of the year due to softer demand related to higher prices. Other segments, such as trailer and RV tires, have exhibited much more significant declines due to inflationary pressures and decreased demand for these vehicle types.

Gross margins were mixed for most tire manufacturers and distributors in the latter half of 2023, fluctuating up to three percentage points, due to changes in sales mix and companies' abilities to pass along increased costs to customers.

Inventory levels for tires trended downward as much as 20% in the final half of 2023 amid lower levels of demand.

Overview

For the U.S. automotive industry, 2023 was the start of a return to "normal," with new vehicle sales defying expectations as automakers gradually emerged from previous supply chain challenges and limited new vehicle inventory.

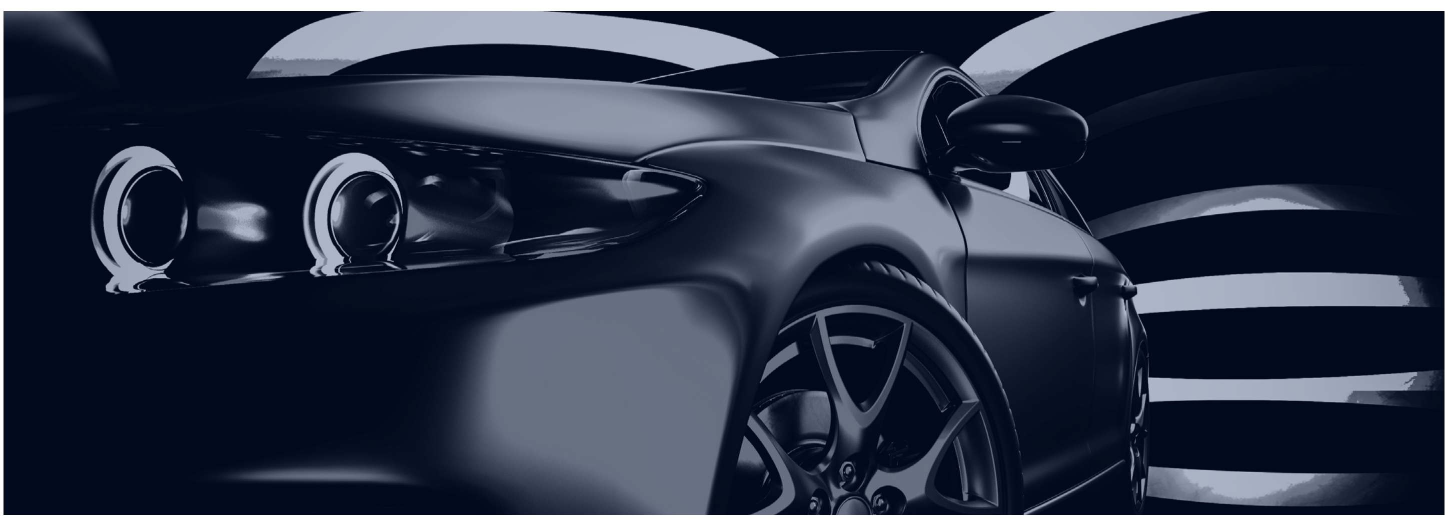
New vehicle sales were stronger and steadier this past year than experts anticipated, reaching a total of 15.5 million units sold, up more than 12% versus 2022. Sales were partly driven by supply chain improvements, which spurred OEM production, paved the way for new product rollouts, and ultimately allowed for a greater number of vehicle deliveries across most automakers. Additionally, a significant increase in incentives from historical lows and a rebound in fleet deliveries further bolstered industry gains in 2023.

However, the industry was not without its set of challenges. High interest rates and affordability concerns in an uncertain economy impacted the purchasing decisions of consumers in the automotive market in 2023, with some individuals opting to dodge the steeper price tags of new rides in favor of used vehicles, a market segment that saw notable supply improvement as new vehicle inventory gradually caught up over the year.

Still, the industry's greater availability of new cars and trucks in 2023 helped answer pent-up consumer demand and drive an increase in retail sales of 9.5% versus the prior year.

Fleet sales were a particularly bright spot for the industry as improved supply chains allowed automakers to ramp up fleet production. Collective sales into large rental, government, and commercial fleets in 2023 saw a robust increase of more than 28% versus the prior year, with sales into rental, government, and commercial fleets up 58%, 36%, and 4%, respectively, year-over-year.

On the electric vehicle ("EV") front, the industry enjoyed record-breaking sales in 2023, as automakers pursued ambitious goals for an electrified future. However, growth in the EV segment was tempered by consumer concerns of vehicle range between charges, availability of charging stations, and the higher cost of new EVs.



New Vehicle Sales

New light vehicle sales in the U.S. were surprisingly strong in 2023, totaling 15.5 million vehicles by the close of December, which reflects an increase of more than 12% from the prior year. After the preceding years of supply chain issues and the global semiconductor shortage, the industry finally began to find relief in 2023, with supply chain improvements and increased production fueling new vehicle inventory. As a result, the seasonally adjusted annualized rate for new light vehicle sales totaled 15.8 million units as of December 2023, up 16% from 2022.

New vehicle sales were stronger than expected due to pent-up demand among consumers and a substantial increase in fleet sales.

The light truck segment, which includes crossovers, SUVs, pickups, and vans, continued to dominate in 2023, accounting for a staggering 80% of all new vehicles sold, up 0.8% from the prior year. In particular, crossovers remained America's most popular vehicle class due to exciting new product launches and redesigns across more automakers, as well as the crossover vehicle's winning combination of ample cabin space and ground clearance.

While limited new vehicle inventory amid supply chain woes has been an ongoing theme in recent years, the industry reached a turning point in 2023 with more predictable supply chain management.

However, interest rates for new vehicle loans remained high over the past year, averaging 6.9% by the close of December. Meanwhile, inflationary pressure and general questions of affordability in an uncertain economy weighed on many consumers in search of their next ride in 2023.

Still, the average transaction price ("ATP") of a new vehicle was $48,759 in December 2023, a decrease of 2.4% from the ATP in December 2022, as many automakers beefed up incentives from historical lows. OEM incentive spending averaged $2,458 per vehicle in December, up more than 90% versus the same period in 2022. Incentive spending for cars increased nearly 51% year-over-year, while truck incentives shot up more than 103%. The decrease was partly offset by ever-increasing luxury vehicle prices.

Meanwhile, after notable volatility in recent years, the used vehicle market began to stabilize in 2023 with the improved availability of new vehicles. The ATP of a used vehicle was $26,446 in December 2023, down 3% from the ATP in the prior year. However, industry experts expect the lasting effects of lower new vehicle inventory in 2021 and 2022 to continue to result in limited supply of used vehicles in 2024, with used vehicle pricing remaining above pre-pandemic levels.

Domestic Manufacturers

General Motors ("GM") finished the final quarter of 2023 with 625,176 vehicles sold, up 0.3% versus Q4 2022. The modest increase was mainly attributed to strong Buick sales, which were up 56.6% in the fourth quarter versus the same period in 2022. Cadillac, Chevrolet, and GMC sales were down 7.0%, 0.3%, and 6.5%, respectively, year-over-year. GM retained its crown as U.S. leader in new vehicle sales in 2023, with full-year sales totaling 2,594,698 vehicles, up 14.1% versus the prior year.

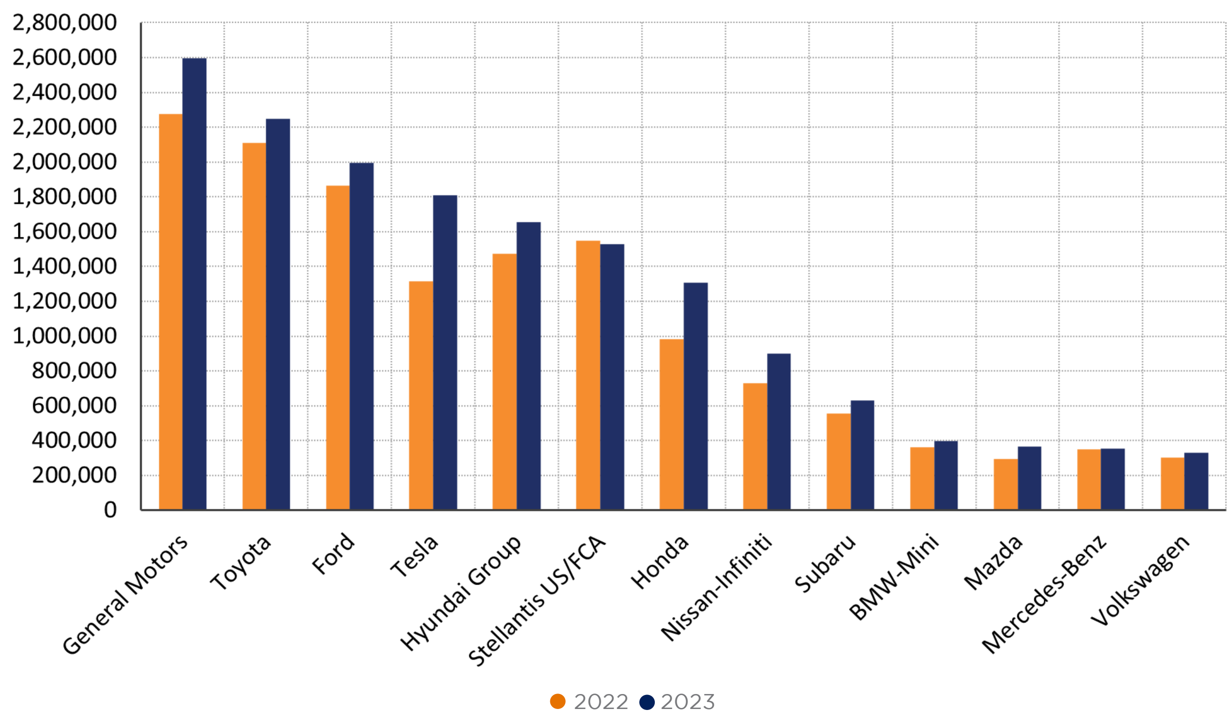
Toyota North America sold 619,661 vehicles in the U.S. in Q4 2023, up 15.4% versus Q4 2022 due to ongoing supply chain improvements and the increasing popularity of Toyota's EV lineup. Toyota remained the leader in EV offerings in 2023 with 26 models across the Toyota and Lexus brands, which represented nearly one-third of the automaker's full-year sales. Toyota was not far behind GM in 2023, closing the year with 2,248,477 vehicles sold, up 6.6% versus the prior year.

Ford sold 487,840 vehicles in the final quarter of 2023, up 0.8% versus Q4 2022. Ford's full-year sales totaled 1,995,912 vehicles, up 7.1% versus 2022. Ford's strong year was primarily due to robust sales of the electric F-150 Lightning truck, as well as the Mustang Mach-E's best year of sales since its launch in 2021.

Hyundai Motor Group, which includes the Hyundai, Kia, and Genesis brands, enjoyed a record-setting sales year in 2023 due to strong SUV and crossover sales, surpassing Stellantis U.S. and Honda, and securing the group's place among the top five U.S. automakers. The group's final-quarter sales were up 4.0% versus Q4 2022, while full-year sales totaled nearly 1.7 million vehicles, up 12.1% versus 2022.

Tesla finished Q4 2023 on a high note with a reported 485,000 vehicle deliveries, bringing the EV giant's full-year deliveries to over 1.8 million units, an increase of 38% from the prior year driven by the vastly popular Model Y entry-level SUV.

1 U.S. Light Vehicle Retail Sales by Manufacturer
Full Year 2023 versus 2022 (in Units Sold)



Industry Highlights

GOOD VIBRATIONS

The industry's continued shift toward electrification has been driven in recent years by government initiatives to reduce greenhouse gas emissions. In 2021, several automakers set ambitious goals for going completely electric in the future. For example, GM has aimed for an all-electric fleet by 2035, while Ford, Kia, Volkswagen, Dodge, and many other manufacturers have declared similar pursuits for the coming decades.

EV sales in the U.S. broke industry segment records in 2023 by exceeding 1.1 million units sold, an increase of 47% versus the prior year, driven by new product launches across multiple OEMs, improved EV inventory, an uptick in incentive spending, and more leasing options for consumers. EVs represented 7.6% of all new vehicle sales in the U.S. in 2023, up from 5.9% in 2022. With more EV options available in several vehicle classes this past year, many consumers are now enjoying all-electric versions of past and present favorites.

Increased awareness of the impacts from climate change have encouraged a growing number of individuals to make the switch to EVs. Additionally, the industry has made notable technological advancements to boost the range of EVs between charges, adding value to many makes and models.

Still, EV prices remained the primary hurdle for most consumers in 2023. Although the ATP of new EVs ended the year at $53,611, down nearly 13% from the ATP in December 2022, industry experts believe the higher cost of most EV models has continued to sideline a portion of consumers who would otherwise choose an all-electric option for their next new ride. However, as EV adoption increases and further advancements in technology and battery manufacturing improve production efficiencies in the coming years, the price difference between EVs and non-EV offerings should narrow.

In terms of market share, hybrid powertrains represented the largest EV segment at 7.6% of the U.S. market in 2023, while fully electric and plug-in hybrid options captured 7.2% and 1.9%, respectively.

Industry Highlights

SLOW CHARGE

While 2023 was largely a strong year for EVs, many automakers noted that customer demand gradually slowed amid concerns of EV range between charges, ease and availability of charging facilities, and the aforementioned higher cost of most new EVs. As a result, analysts are now questioning whether automakers will be able to pursue their all-electric pledges with the same gusto they showed when their long-term fleet plans were first declared.

GM did not ramp up production of its Ultium EV battery to full speed in 2023, citing the slowdown in customer demand for the automaker's change in production plans. Meanwhile, in November, Ford announced that its previous plans to invest $3.5 billion in battery plant operations would still press on, albeit with new battery capacity scaled back from 35 gigawatt-hours per year to 20 gigawatt-hours, as well as a reduction in Ford's original estimate of newly created jobs at the plant. More notably, Ford will reportedly reduce production of its F-150 Lightning electric truck by 50% in 2024, primarily due to lagging demand.

In addition to consumer concerns surrounding EV cost, reliability, and ease of use, the industry expects that supply shortages of key materials for EV battery technology, such as lithium, cobalt, and nickel, will result in significant price increases for these materials in the coming years, tempering many automakers' plans to expand EV production.

The overall progress of electrification in the U.S. may depend on the outcome of the 2024 presidential election, which could result in a shift away from policies focused on EV development if a new administration is sworn in.

LET'S MAKE A DEAL

In September 2023, the United Auto Workers ("UAW") union, which represents a group of over 980,000 active and retired automotive industry members in the U.S., began a historic labor strike against GM, Ford, and Stellantis U.S. after talks of new contract agreements and related counteroffers failed to meet UAW's demands. Union members sought contract terms in favor of a series of annual wage hikes, a return to cost-of-living adjustments, restored overtime and retirement benefits that were lost amid the 2007-2008 financial crisis, and an end to the automakers' two-tiered employment system that impacts certain workers' wages and benefits.

The 46-day strike ended in October when automakers struck tentative agreements that satisfied union demands. In the short term, the strike impacted production of approximately 43,000 vehicles out of the roughly 145,000 produced per week by Detroit's Big Three. The automakers' new vehicle sales remained remarkably stable through the event.

Going forward, the new union contracts will lead to significant increases in labor costs for related automakers. Moreover, the highly publicized nature of UAW's strike will likely pressure non-unionized companies, including suppliers, to raise pay for their workers, especially in the face of a currently tight skilled labor market.

As for the strike's long-term impact, consumers can expect to pay more for new vehicles as automakers pass along increased labor costs. Ford indicated its new union deal will eventually tack on up to $900 to the cost of each vehicle. Other long-term impacts on the auto market remain 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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About B. Riley Advisory Services

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

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.

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- Real Estate Solutions

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- Valuations
- Asset Planning & Recovery Strategies