

Monitor

Automotive

VOLUME
343



SUPPLY TRAILS DEMAND

CHIPS ARE DOWN

An ongoing global semiconductor shortage has severely impacted production for several OEM platforms

NOW HIRING

A major shortage in skilled labor has left many production lines unable to meet the backlog of demand for new vehicles

CURBED SPENDING

Consumers have spent less money on vehicle purchases in recent months amid financial concerns related to the new surging coronavirus variant

In This Issue

MONITOR AUTOMOTIVE

BRILEYFIN.COM

SEPTEMBER 2021

800-454-7328

VOLUME

343

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

04 Trend Tracker

06 Overview

07 New Vehicle Sales

08 Domestic Manufacturers

09 Industry Trends

10 Experience

11 Meet The Team

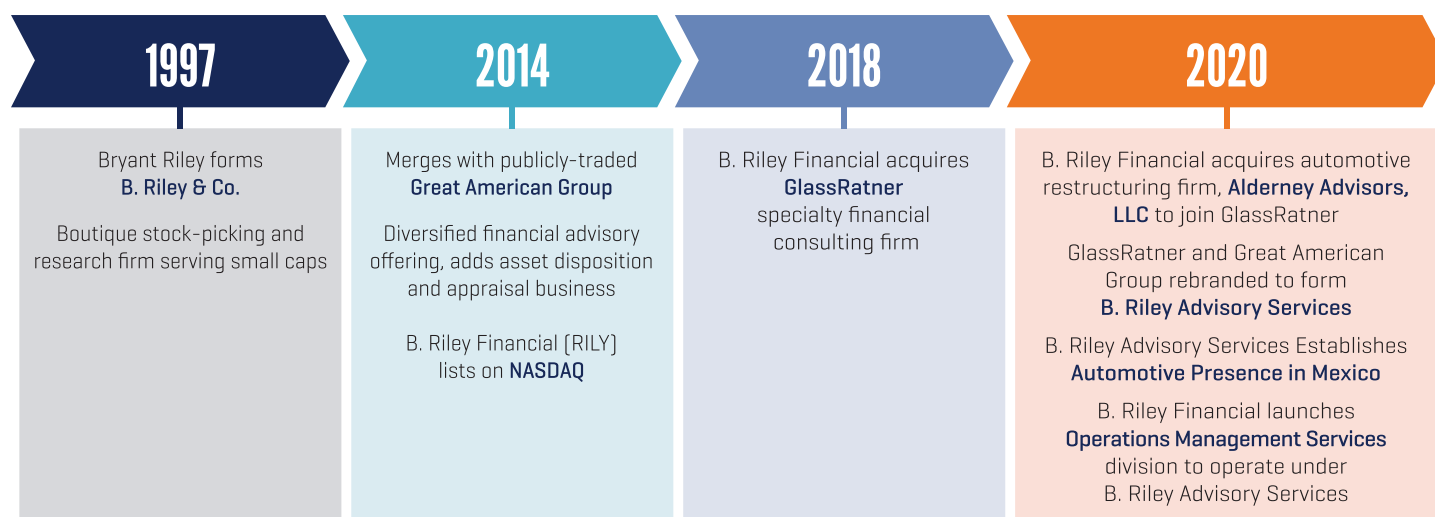
12 About B. Riley
Advisory Services

13 Capitalize On The
B. Riley Difference

B | RILEY
Advisory Services

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
NOLVs	Mixed 	Mixed 	Mixed 
Sales Trends	Decreasing 	Increasing 	Increasing 
Gross Margin	Mixed 	Decreasing 	Consistent 
Inventory	Decreasing 	Decreasing 	Decreasing 

OEM PARTS

NOLVs for OEM parts were mixed in the first half of 2021, fluctuating up to five percentage points, largely due to changes in inventory mix. As demand returned to the automotive industry, many companies experienced more shifts in inventory levels than normal.

Sales decreased up to 25% year over year due to plant shut-downs and supply chain issues slowing production as a result of the COVID-19 pandemic. However, sales in recent months have increased as the comparison periods included some of the worst months of sales performance amid operational shut-downs of major automakers during the onset of the pandemic.

Gross margins for OEM parts were mixed in the first half of 2021, fluctuating up to four percentage points. Margins have benefited from recent increases in volumes; however, margins have also been under pressure as a result of rising input and freight costs due to ongoing global supply chain issues and freight shortages.

Despite increases to input costs, inventory levels decreased 10% to 15% in the first half of the year. As volumes have returned, inventory levels have remained lean with goods shipping to OEMs immediately.

AFTERMARKET REPLACEMENT PARTS AND ACCESSORIES

NOLVs for aftermarket replacement parts and accessories were mixed in the first half of 2021, fluctuating up to two percentage points. Positive factors included lower inventory levels and strong demand in more recent months, while negative factors consisted of changes in gross margin and unfavorable shifts in inventory mix.

Sales of aftermarket replacement parts and accessories increased up to 20% year over year for many companies, due to strong consumer demand, higher prices, and individuals generally having more cash in hand for aftermarket purchases. However, while high demand for used cars has presented increased opportunities for aftermarket players thus far in 2021, supply chain issues and raw material shortages have tempered their ability to meet demand.

Gross margins for aftermarket replacement parts and accessories decreased up to three percentage points in the first half of 2021, with margin compression driven by higher material costs and increased wage and freight expenses.

Inventory levels decreased from 5% to 15%, primarily due to strong demand and a longer supply chain.

Trend Tracker

TIRES

NOLVs for tire manufacturers and distributors were mixed in the first half of the year, fluctuating up to two percentage points, depending on changes in inventory mix and gross margins.

While tire sales initially fell in 2020 due to the negative effects of the COVID-19 pandemic, sales across the industry have rebounded in the first half of 2021, increasing 5% to 15% year over year amid growing consumer demand. Tire sales in recent months have increased 35% to 45% compared to what were the worst-performing months in the prior year at the onset of the pandemic.

Gross margins remained relatively consistent for most companies in the beginning half of the year despite rising input and freight costs, as most companies have successfully passed along increased costs to customers.

Inventory levels for tires decreased up to 10% for many companies in line with strong customer demand in recent months and delays in the supply chain. Some operators continued to report supply shortages from overseas vendors due to a lack of available shipping containers and increased shipping times.

In addition, the tire industry is struggling with rubber shortages due to a rapidly spreading disease among rubber trees, which is threatening many rubber plantations overseas. The industry's supply issues have been compounded by China tightening control of raw materials to bolster the nation's gross domestic product.



Overview

The U.S. automotive industry is rounding the curve to recovery thus far in 2021 after pandemic-related plant shutdowns and reduced travel dampened sales in the prior year. However, ongoing global supply chain issues and labor shortages have extended production woes and tempered the industry's comeback from its worst period in years.

Automotive production saw an unprecedented downturn in 2020 due to plant and dealership shutdowns, supply chain disruptions, and full lockdown orders due to the COVID-19 pandemic. In the second half of 2020, the industry nearly recovered to previous recorded levels as demand returned and production resumed around the country. However, while automakers benefited from sales frenzies in the fourth quarter of 2020 and first quarter of 2021 amid pent-up consumer demand, the industry has struggled with the same mounting supply chain and labor shortage issues as so many other industries across the globe.

Among those challenges is an ongoing semiconductor shortage, which has severely limited or altogether halted production for several OEM platforms. For the past six months, many automakers have scrambled to secure alternative suppliers, while others have considered implementing plans to ease production woes, such as shipping nearly finished vehicles to dealerships for service technicians to handle chip installation at a later date.

Nonetheless, the vast majority of automakers have been forced to stockpile unfinished cars and trucks at plants, causing a significant build-up in demand and spike in prices for both new and used passenger, fleet, and commercial vehicles. The resulting shock across the U.S. economy is expected to remain substantial while manufacturers continue to navigate the unstable global supply chain in 2021.

Additionally, the automotive industry has not been immune to the ongoing major skilled labor shortage, which has left many production lines unable to meet demand and forced several projects into secondary and tertiary markets. Upward pressure on wages has been witnessed across the sector, with most automakers having to pay higher wages and add signing bonuses to attract skilled labor back to vacant positions. Further, experts expect the trend in higher starting wages to last well beyond the effects of the pandemic.

As with the rest of the economy, the outcome of the pandemic and the negative effects of any ensuing variants of the coronavirus on the automotive industry remain to be seen.



New Vehicle Sales

While new vehicle sales were strong in the final quarter of 2020 amid healthy consumer demand, production issues stemming from the semiconductor shortage and other global supply chain disruptions have tempered sales growth across the country's major automakers since the beginning months of 2021. According to Cox Automotive, the majority of manufacturers have been forced to cut vehicle production in recent months due to the ongoing lack of semiconductors, which is expected to continue disrupting the automotive industry and other sectors well into the fall.

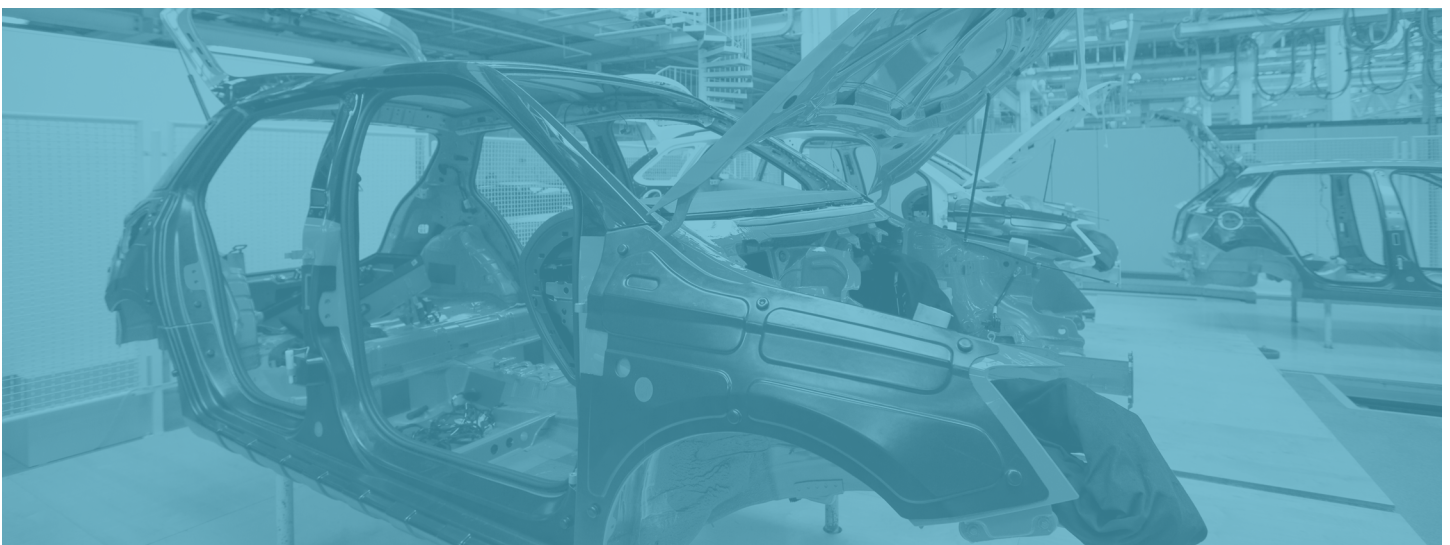
As a result of limited new vehicle inventory, a growing number of consumers have been pushed toward the used vehicle market this year, which has led to a shortage of used cars and trucks and a subsequent surge in used vehicle prices. In the spring of 2021, the used market experienced a virtually unheard-of phenomenon in which used vehicles were actually appreciating in value amid soaring demand, per Edmunds.

While the average used car price reached a staggering \$25,500 in July 2021, sales in recent months have shown that demand for used vehicles is slowing down, partly due to normal seasonality in which demand is heavily driven by tax refunds.

More importantly, consumers have finally shown signs of being dissuaded by the narrow price difference between new and used vehicles.

Ultimately, consumers have spent less money than expected in recent months, particularly in major buying categories such as new vehicles, as news of the surging Delta variant of the coronavirus has left many individuals concerned for their financial well-being in the coming months. This overall slowdown in spending has extended to online purchases of cars and trucks, which were booming from the latter half of 2020 into early 2021 amid social distancing measures at dealer showrooms.

While demand for cars and trucks has largely returned to normal levels thus far in 2021, and although profitability on lower volume has remained high despite minimal incentives from OEMs, the negative effects of the aforementioned semiconductor shortage, supply chain constraints, and subsequent inventory shortages have weighed on the industry's recovery. The seasonally adjusted annualized rate for new light vehicles totaled 13.1 million units as of August 2021, a decrease of 2.1 million units versus the prior year.



Domestic Manufacturers

Domestic manufacturers have benefited from strong demand for new cars and trucks thus far in 2021, with sales performance primarily limited by ongoing inventory shortages. As expected, second-quarter sales figures were particularly robust against comparison periods at the onset of the COVID-19 pandemic.

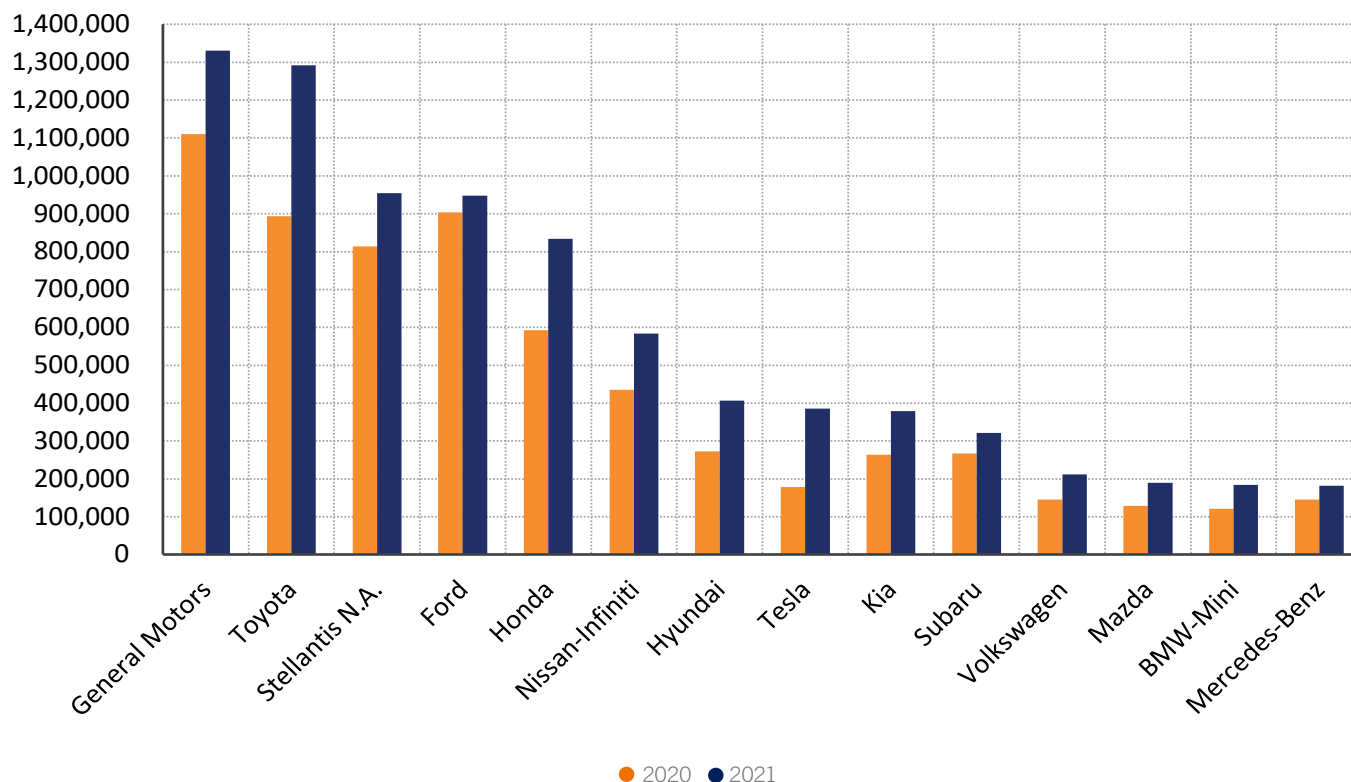
General Motors (“GM”) reported a total of 688,236 units sold in the second quarter of 2021, up 39.7% versus the same quarter in 2020, with the automaker on track to be the industry leader in full-size and mid-size pickup sales for the seventh consecutive year.

Toyota saw a similar increase in its U.S. division sales for June 2021, reporting a total of 207,331 units sold, up 39.8% versus the same month in 2020, largely due to robust demand for the automaker’s alternative-powered vehicle offerings.

Ford reported a total of 475,327 total units sold in the second quarter of 2021, a 9.6% increase versus the same period in 2020, with the automaker’s retail truck segment up 2.6%, due to high turn rates and new product lines driving record transaction pricing. Ford’s sales were tempered by the global semiconductor shortage, which caused a production loss of approximately 700,000 vehicles during the second quarter.

Stellantis’ North American division (formerly known as Fiat Chrysler Automobiles) fared well in the second quarter with 485,312 units sold, a 32.0% increase versus the same period in 2020. The automaker slashed incentives and experienced new highs in average transaction pricing. At the same time, however, Stellantis dealt with hits to production during the quarter amid the ongoing semiconductor shortage, which halted production at some of the automaker’s plants for several months.

1 U.S. Light Vehicle Retail Sales by Manufacturer Year-to-Date June 2021 versus 2020 (in Units Sold)



Industry Trends

SEMICONDUCTOR SHORTAGE

Although 2021 has proven to hold its own set of supply chain issues, the fragility of the automotive industry's supply chain began to show as early as February 2020 when production of components from China was disrupted by the initial surge of the coronavirus outbreak. Although OEMs have moved on from the mass shutdowns, suppliers are still struggling to adjust with ongoing issues of labor and material shortages.

More recently, a global shortage of semiconductors – the critical chips used to calibrate fuel injection, run infotainment systems, and provide cruise control options – has upended many major automakers. The shortage is the direct result of semiconductor manufacturers transitioning production to more profitable consumer-electronics processors when automotive plants were temporarily closed in 2020 due to the pandemic. As automakers resumed operations sooner than expected, semiconductor manufacturers were unable to quickly shift production back to automotive-grade chips.

Many assembly plants have been temporarily closed as manufacturers struggle with the global shortage. Some automakers have dedicated their limited chip inventory for use in more expensive models. Industry experts estimate that the shortage has resulted in a loss of \$60 billion in global automotive sales in the first half of 2021.

DEALERSHIPS

The negative effects of the COVID-19 pandemic have extended to dealers over the past 18 months. The pandemic has continued to force many dealers to review expense structures, which has led to reduced staff, inventory, and advertising costs, as well as renegotiations of rent, mortgages, and other recurring fixed costs.

However, with the recent decline in retail sales, the global semiconductor shortage, and the recent surge in the Delta variant of the coronavirus, dealerships felt a significant squeeze on inventory in August 2021.

Dealers held approximately 942,000 vehicles in inventory in August, a significant decrease from three million vehicles two years ago, according to Cox Automotive. In addition to inventory shortages from supply chain constraints, elevated transaction prices have steered many consumers away from showrooms, as the average new vehicle transaction price rose 16% to \$41,378 in August 2021 versus the prior month.

Overall, the lack of vehicle inventory is resulting in the consolidation of dealerships under the control of nationwide companies, particularly as more car sales move to online retail channels amid pandemic conditions.

Finally, major automakers are learning from the current inventory issues and how having fewer vehicles on dealership lots ultimately translates to higher sales prices. As a result, consumers are expected to have more difficulty pitting dealers against one another for lower prices in the future, which will be even further discouraged by industry consolidation.

ELECTRIC VEHICLES

Many automakers' electric vehicle ("EVs") plans are in full swing in 2021 as more companies pledge to go fully electric in their vehicle offerings over the coming years. Environmentally conscious consumers are increasingly choosing EVs, and current federal tax credits of up to \$7,500 for many EV and hybrid models only further sweetens the deal for buyers.

President Biden announced an executive order in August 2021 aimed at ensuring that EVs represent half of all new vehicles sold in the U.S. in 2030, the next step toward his administration's goal of reducing greenhouse gas emissions. The order was made with backing from the nation's largest automakers. However, major adjustments to OEM program timing to support the new executive order are expected to drive significant disruptions throughout Tier 1, 2, and 3 supplier groups. The order will also likely drive some demand in the used market from consumers unwilling to choose EV options, which will benefit aftermarket operators.

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, including Gordon Heidacker, who has over 39 years of automotive industry experience with OEM, Tier 1, and aftermarket expertise in product design and launch, negotiation and management of external key contracts and relationships with OEMs, mergers and acquisitions, strategy, and post-merger integration.

Meet Our Team

AUTOMOTIVE TEAM



Gordon Heidacker
Managing Director,
Automotive Sector Group Head
Appraisal & Valuation
(248) 808-3269
gheidacker@brileyfin.com



Mike Issa
Senior Managing Director,
Automotive Retail Restructuring
(949) 279-4244
missa@brileyfin.com



Alicia Masse
Senior Managing Director,
Automotive Financial Restructuring
(248) 931-0800
amasse@brileyfin.com



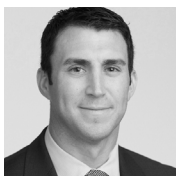
Dan Ruskin
President, Automotive
Operations Management Services
(615) 714-5530
druskin@brileyfin.com



Marc Spizzirri
Senior Managing Director,
Automotive Retail Restructuring
(949) 922-1006
msspizzirri@brileyfin.com

APPRAISAL & VALUATION TEAM

BUSINESS DEVELOPMENT TEAM



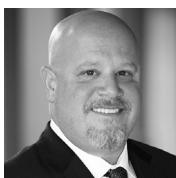
Bill Soncini
National Marketing Manager
Managing Director
Midwest Region
(773) 495-4534
bsoncini@brileyfin.com



Jennie Kim
Managing Director
Western Region
(818) 746-9370
jkim@brileyfin.com



Ryan Mulcunry
Managing Director
Northeast Region
(617) 951-6996
rmulcunry@brileyfin.com



David Seiden
Managing Director
Southeast/Southwest Region
(404) 242-0683
dseiden@brileyfin.com



Stephen Shelton
Managing Director
New York Metro/
Mid-Atlantic Region
(203) 524-3271
sshelton@brileyfin.com



Akilah Moore
Business Development Associate
Midwest Region
(312) 777-7956
anmoore@brileyfin.com



Nick Disimile
Managing Director
(516) 707-7040
ndisimile@brileyfin.com

OPERATIONS TEAM

Chad P. Yutka, ASA
Senior Managing Director
Corporate Advisory Valuation Services
(312) 909-6078
cyutka@brileyfin.com

Kristi Faherty
Managing Director
(781) 429-4060
kfaherty@brileyfin.com

Eric Campion
Senior Project Manager
(312) 777-7944
ecampion@brileyfin.com

Thomas Mitchell
Project Manager
(818) 746-9356
tmitchell@brileyfin.com

Brandon Krause
Senior Writer
(818) 746-9335
bkrause@brileyfin.com

ASSET DISPOSITION TEAM

Adam Alexander
CEO
B. Riley Wholesale & Industrial Solutions
(818) 340-3134
aalexander@brileyfin.com

Scott Carpenter
CEO
B. Riley Retail Solutions
(818) 746-9365
scarpenter@brileyfin.com

Paul Brown
Vice President
B. Riley Wholesale & Industrial Solutions
(203) 292-8111
pbrown@gaglobl.com

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, B. Riley Advisory & Valuation Services, LLC, Great American Group Machinery & Equipment, LLC, and Great American Group Intellectual Property, LLC.



MONITOR AUTOMOTIVE
BRILEYFIN.COM
SEPTEMBER 2021
800-45-GREAT

VOLUME
343

LOS ANGELES (HQ)

30870 Russell Ranch Road
2nd Floor, Suite 250
Westlake Village, CA 91362
T 818.884.3737

ATLANTA

3445 Peachtree Road
Suite 1225
Atlanta, GA 30326
T 470.346.6800

BOSTON

300 First Avenue
Suite 201
Needham, MA 02494
T 781.444.1400

CHICAGO

200 West Madison Street
Suite 2950
Chicago, IL 60606
T 312.894.7700
F 312.368.8883

DALLAS

17304 Preston Road
Suite 720
Dallas, TX 75252
T 972.996.5630

HOUSTON

4400 Post Oak Parkway
Suite 1400
Houston, TX 77027
T 713.403.2111

NEW YORK

299 Park Avenue
21st Floor
New York, NY 10171
T 212.457.3300

WEST PALM BEACH

1400 Centrepark Boulevard
Suite 860
West Palm Beach, FL 33401
T 561.657.4896

AUSTRALIA

Level 29, Chifley Tower
2 Chifley Square
Sydney, NSW 2000
Australia

GERMANY

Prinzregentenstr 18
5th Floor
80538 Munchen, Germany

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 spanning investment banking and institutional brokerage, private wealth and investment management, financial consulting, corporate restructuring, operations management, risk and compliance, due diligence, forensic accounting, litigation support, appraisal and valuation, auction and liquidation services. B. Riley Financial is headquartered in Los Angeles with offices across the U.S. as well as an international presence.

In February 2021, B. Riley acquired National Holdings Corporation. The combination created an enhanced wealth management platform, and as a result of the acquisition, B. Riley has a synergistic footprint with offices now expanding from coast to coast.

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

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)
- Sales & Trading
- Equity Research

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
- Financial Advisory Services

RETAIL SOLUTIONS

Retail restructuring, advisory and disposition solutions that help retailers maximize their retail store portfolios and inventory positions, as well as a real estate services vertical focused on maximizing distressed real estate values.

- 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