B | RILEY Advisory Services

MARCH 2021

Monitor
Automotive

COVID-19 PLAGUES OPERATIONS AND SALES

SALES COME UP SHORT

Despite better-than-expected Q4 2020 retail sales, pandemic-related operational issues and low demand dampened results for most automakers

USED MARKET BOOMS

Low interest rates and industry-wide inventory shortages led to overwhelming demand for gently used vehicles in the latter half of the year

EV MARKET IS ABUZZ WITH BIG INVESTMENTS

Several automakers have announced multi-billion dollar plans to go all in on all-electric vehicles

In This Issue

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334

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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

1997	2014	2018	2020
Bryant Riley formed **B. Riley & Co.** Boutique stock-picking and research firm serving small caps	Merged with publicly-traded **Great American Group** Diversified financial advisory offering, adding asset disposition and appraisal business B. Riley Financial (RILY) listed on **NASDAQ**	B. Riley Financial acquired **GlassRatner** specialty financial consulting firm	GlassRatner and Great American Group formed **B. Riley Advisory Services** B. Riley Advisory Services acquired **Alderney Advisors** and **Anchor Resource Management Consulting** Expanded platform with **Operations Management Services division**

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 11.

Trend Tracker

	OEM Parts	Aftermarket Replacement Parts	Aftermarket Accessories	Tires
NOLVs	Decreasing ▼	Mixed ▲▼	Increasing ▲	Mixed ▲▼
Sales Trends	Decreasing ▼	Mixed ▲▼	Increasing ▲	Mixed ▲▼
Gross Margin	Decreasing ▼	Consistent ▬	Decreasing ▼	Consistent ▬
Inventory	Decreasing ▼	Decreasing ▼	Increasing ▲	Increasing ▲

OEM PARTS

NOLVs for OEM parts decreased up to 20 percentage points in the final half of 2020, driven by lower sales demand, lower gross margins, and unfavorable changes in inventory mix, with lower levels of finished goods inventory and higher levels of raw materials inventory.

Sales decreased up to 30% year over year due to continued poor market conditions related to the pandemic.

Gross margins for OEM parts decreased in the second half of 2020, fluctuating up to 10 percentage points, due to price concessions and high overhead costs associated with lower sales volumes.

Inventory levels decreased, fluctuating 30% to 50%, in line with the period’s low demand.

AFTERMARKET REPLACEMENT PARTS

NOLVs for aftermarket replacement parts were mixed in the final half of 2020, fluctuating up to two percentage points. Positive factors included lower inventory levels and strong demand in more recent months, while negative factors consisted of an overall decline in sales, changes in gross margin, and unfavorable shifts in inventory mix.

Sales of aftermarket replacement parts were mixed for many companies, fluctuating up to 20% year over year, due to COVID-19 pandemic conditions. Declines varied by market and major product lines.

Gross margins for aftermarket replacement parts remained relatively consistent in the final half of 2020, with only minor fluctuations attributed to changes in sales mix.

Inventory levels decreased from 5% to 25%, primarily due to stronger-than-anticipated demand in the latter half of the year.

AFTERMARKET ACCESSORIES

NOLVs for aftermarket accessories increased up to four percentage points in the final half of 2020, driven by strong recent customer demand and improved inventory mix.

Sales of aftermarket accessories increased overall due to a gradual recovery in demand after the initial impact of the COVID-19 pandemic.

Gross margins decreased up to two percentage points, primarily due to unfavorable changes in sales mix and an increase in lower-margin inventory levels.

Trend Tracker

Despite disruptions with some suppliers, inventory levels for aftermarket accessories increased as much as 50% in the latter half of 2020 in line with growing customer demand.

TIRES

NOLVs for tire manufacturers and distributors were mixed in the final half of the year, fluctuating up to two percentage points, depending on product availability to meet demand, as well as changes in inventory mix and gross margins.

Sales of tires across the industry were mixed on a year-over-year basis. While sales fell as much as 25% early in the year due to the negative effects of the pandemic, sales have increased 10% to 25% in more recent months as a result of added market share, acquisition of larger customers from competitors, or further expansion into new regions.

Gross margins remained relatively consistent for most companies in the second half of the year, with minor fluctuations driven by changes in sales mix.

Inventory levels for tires increased up to 5% for many companies, in line with increased customer demand. However, some operators reported supply shortages from overseas vendors due to factory shutdowns and a lack of available shipping containers.

Overview

The COVID-19 pandemic left the U.S. automotive industry reeling for several months in 2020 as plant shutdowns, supply chain issues, and weakened demand resulted in the sector's worst period in years. However, automakers fared better than projected due to low interest rates, historical financing offers, and a recovery in retail sales.

With 2020 in the rearview mirror, automakers emerged from a challenging and unprecedented period. The pandemic ushered in the industry's most difficult year since the automotive crisis of 2008, with companies restarting operations after an average two-month complete shutdown period. Post-shutdown months presented challenges with pandemic restrictions on the labor force and supply chain turbulence from global supply partners, such as Mexico, as they grappled with the pandemic. However, surprisingly, the industry nearly recovered to previous recorded levels quickly as demand returned and depleted inventory was replenished.

Retail sales recovered better than expected at the end of 2020 as Q4 sales soared 34.2% versus the prior quarter, driven by low interest rates, attractive financing offers, and people opting for new personal vehicles over public transit.

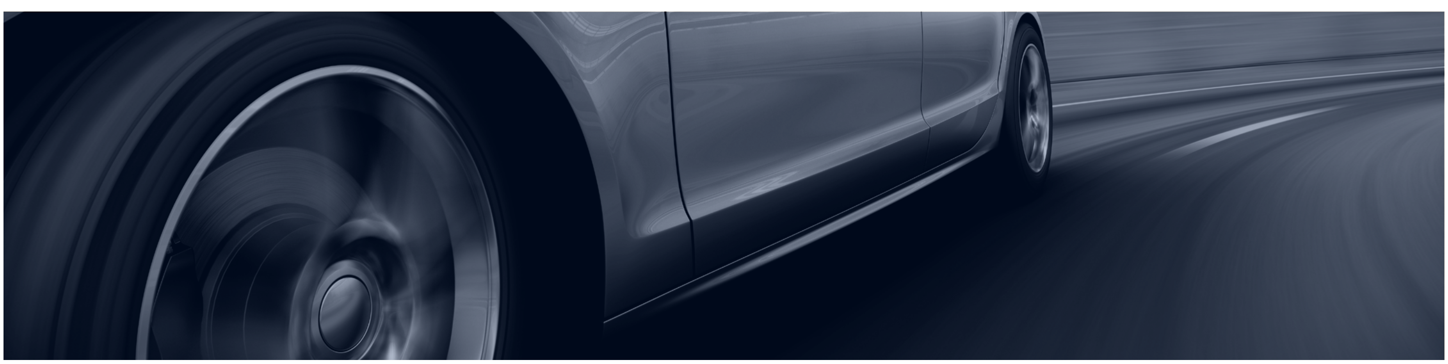
Nonetheless, used vehicle sales boomed in 2020 due to new vehicle inventory shortages in the wake of production and supply chain constraints, with the third quarter marking the fastest rate of used inventory turnover in six years.

Used vehicle prices have continued to climb in recent months as demand continues to outstrip supply.

As demand for OEM parts is directly correlated with the number of new vehicles on the road, poor full-year new vehicle sales negatively impacted multiple market segments.

However, given the historically high average vehicle age of 11.9 years and the continued trend of consumers holding onto their current vehicles during financially uncertain times, demand for aftermarket replacement parts is expected to increase as much as 50%, according to industry experts.

With increased work-from-home policies amid the pandemic, cumulative travel on all roads fell 13.7% in 2020 versus 2019. Travel declined 11.1% in November 2020 versus the same period in 2019. As travel rates decrease, so does vehicle wear and demand for certain aftermarket goods. However, as the pandemic subsides and vehicle use increases with pent-up travel demand, this trend is expected to reverse.



New Vehicle Sales

After a debilitating second quarter marked by extensive pandemic-related plant and dealership shutdowns, new vehicle sales volume in total was only down 10% in the third quarter compared to the same period in 2019, a welcome surprise among OEMs and industry experts, as temporary plant closures were lifted and production schedules resumed.

In more recent months, sales fared better than projected across several automakers as additional economic stimulus payments, low interest rates, and historically long financing offers tempted consumers into new rides. However, figures remained below year-ago levels due to inventory shortages and the continued negative effects of the pandemic.

New vehicle sales were tempered in the fourth quarter as the rental fleet liquidated vehicles without ordering new automobiles, as rental fleet sales represent approximately 10% of the new vehicle market, according to experts.

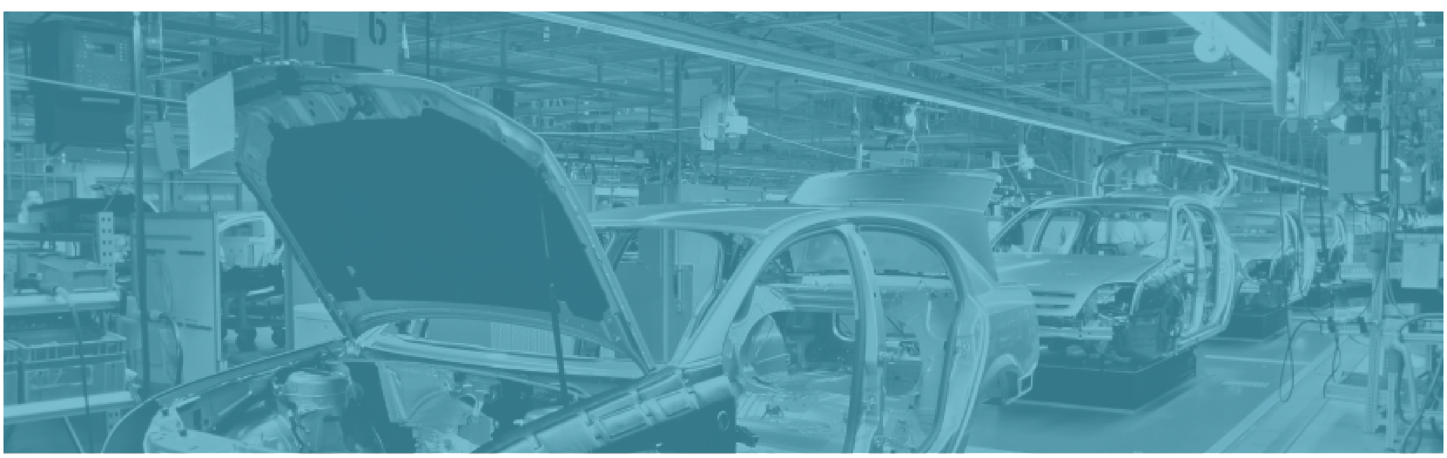
Additionally, the substantial anticipated increase in off-lease vehicles entering the market through 2021 may affect residual values in the long term, reducing accessibility to new vehicle leasing for many consumers.

Moreover, sales continued to be tempered by an influx of consumers rushing to the used vehicle market amid new vehicle inventory shortages and attractive financing options.

However, despite the continued wave of off-lease vehicles entering the market, low interest rates and overwhelming demand began to outstrip supply in the final months of 2020, driving up used vehicle prices. The average transaction price of used vehicles reached $22,087 in December, a 1.7% increase from the previous record-high average in November. Still, with the average price of new vehicles hitting an all-time high of $38,077 in December, the used market is likely to remain the more alluring choice for many cost-conscious consumers.

Internet-based sales continued to partially offset losses in the fourth quarter as social distancing measures remained in effect. For example, Toyota reported that 90% of its customers conducted at least some portion of the purchase process online in 2020, while 10% purchased their new vehicles without ever stepping foot in a showroom.

Overall, the sentiment of the industry seems to be that matters could have ended far worse at the close of 2020. According to the National Automobile Dealers Association ("NADA"), the December 2020 seasonally adjusted annualized rate for new light vehicles, which totaled 16.3 million units, was only down 3% versus the prior year, a projection that few anticipated amid the uncertainties of the past year.



Domestic Manufacturers

With pandemic-related shutdowns lifted in the final half of 2020, domestic manufacturers pushed hard to make up for lost volume and program delays, finishing above experts' bleak expectations, albeit well below full-year 2019 sales.

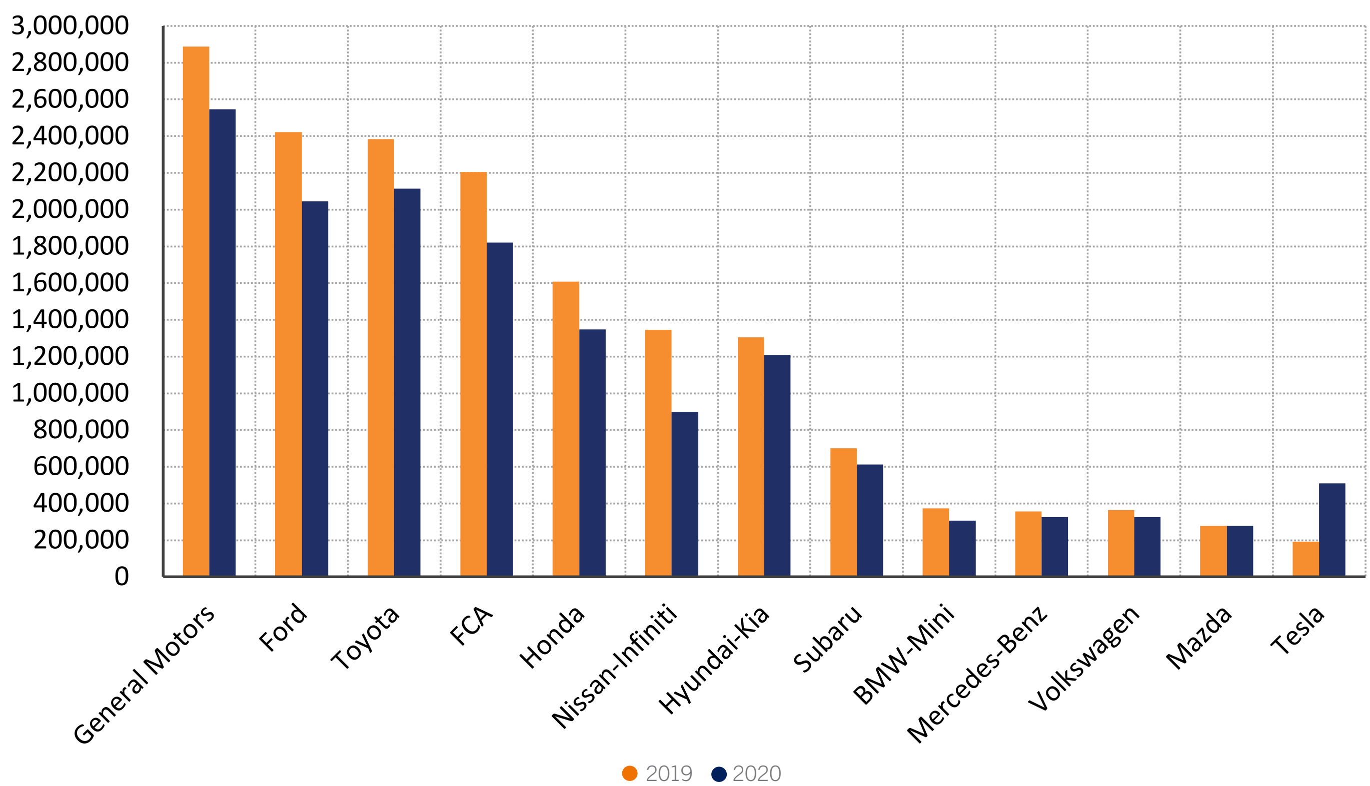
General Motors ("GM") reported a total of 771,323 units sold in the fourth quarter of 2020, down 4.8% versus the same quarter in 2019. GM finished with full-year sales totaling 2.5 million units, down 11.8% versus 2019.

Ford fared worse in the final quarter with 542,749 total units sold, a 3.4% decline versus the same period in 2019, with car and truck segments down 41.1% and 12.5%, respectively. SUVs remained a bright spot for the ailing automaker, with sales up 4.0%. Nonetheless, Ford's full-year sales totaled just over two million units, reflecting a 15.6% decrease from 2019.

Fiat Chrysler Automobiles ("FCA"), now known as Stellantis following a merger between FCA and Groupe PSA, fared similarly, with 499,431 units sold in the fourth quarter of 2020, an 8.0% decline versus the same period in 2019. Dodge was one of the worst performers among the automaker's family of brands, with fourth-quarter sales down 31.0%. While Jeep and Ram also suffered with sales down 4.0% and 5.0%, respectively, Chrysler helped partially offset losses, with sales up 5.0% due to a modest increase in demand for the Chrysler Pacifica line.

Meanwhile, Toyota's U.S. division reported a total of 249,601 units sold in December 2020, up 20.4% versus the same month in 2019, due to robust demand for the automaker's SUV offerings such as the RAV4 and Highlander. Nonetheless, Toyota's full-year U.S. sales totaled just over 2.1 million units, a decrease of 11.3% versus the prior year.

1 **U.S. Light Vehicle Retail Sales by Manufacturer Full Year 2020 versus 2019 (in Units Sold)**



Industry Trends

COVID-19 IMPACT

Every level of the automotive industry felt the impact of the COVID-19 pandemic in 2020. In the first half of the year, OEMs halted production with factory shutdowns while dealerships faced weakened demand for new cars as consumers stayed home under quarantine orders.

The fragility of the 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.

While December represented a smoother operating month for OEMs and suppliers alike compared to the rest of 2020, new material shortages in January 2021 for items such as microchips and aluminum have put the automotive sector and other industries back on edge. However, financial support through the U.S. government's funding programs, such as the Paycheck Protection Program, and lender accommodations have helped bring much-needed assistance to the middle market supply base. Continued attention to financial and operational efficiencies and adaptability to ever-changing global market conditions will be key to the long-term health of the automotive industry in 2021.

DEALERSHIP PERFORMANCE

Despite the industry's many challenges during the pandemic, the average U.S. dealership ended up recording a much higher net pretax profit in 2020 versus the prior year, with several important driving factors, according to NADA. Although factory shutdowns led to lower inventory levels, this also resulted in higher gross averages per vehicle sold.

The pandemic also forced many dealers to review expense structures, which led to reduced staff, inventory, and advertising costs, as well as renegotiations of rent, mortgages, and other recurring fixed costs.

Service business improved as more consumers opted for driving vacations versus airline travel. Consumers were also less likely to use public transit in 2020, and many were left with ample time, income, and desire for retail therapy.

Finally, while dealers reviewed costs and infrastructure, they also shifted to more online presence, which supported sales during the pandemic and further changed structural costs.

ELECTRIC VEHICLES

The future of electric vehicles ("EVs") looks brighter than ever as many U.S. automakers recently announced plans to sharpen their focus in all-electric product offerings.

GM will spend $27 billion on producing 30 EV models while also developing driverless cars by 2025. The company aims to phase out gasoline-engine options and sell only EVs by 2035, a segment that currently generates only 2% of GM's sales.

Ford has similarly transformative plans for its future with the rollout of the Mustang Mach-E SUV in December 2020. The automaker will also begin production of the first electric F-150 truck in 2021. Further, Ford announced a doubling of its initial $11 billion investment in EVs through 2025, and another $7 billion for the development and rollout of autonomous vehicles.

Ford's European division also plans to only sell electric and plug-in hybrid models by 2026, with all passenger cars running solely on batteries by 2035.

Stellantis also announced that one of the strategic reasons for the recent merger between FCA and Groupe PSA was to commonize the EV platform and battery technology across a larger collection of vehicles.

Other automakers are moving more swiftly on EV efforts in Europe than in the U.S., as the European Union's increasingly stringent emissions standards force automakers to lean into EV development and production.

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.

Capitalize On The B. Riley Difference

B. Riley Financial ("B. Riley") companies provide tailored financial solutions to meet the strategic, operational, financial advisory and capital needs of its clients. Our diverse suite of business capabilities goes beyond traditional financial service offerings. By leveraging cross-platform expertise and assets, our companies are uniquely positioned to provide full service, collaborative solutions at every stage of the business life cycle.

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 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
- Merger & Acquisition (M&A) Advisory
- 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.

- Acquisitions & Sales
- Auctions
- Financial Advisory Services
- Liquidations & Loan Sales
- Principal Investments & Financing

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 Service

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

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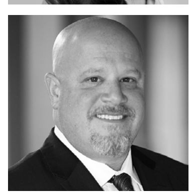

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About B. Riley Advisory Services

B. Riley Financial (NASDAQ: RILY) provides collaborative financial services solutions tailored to fit the capital raising, business, operational, and financial 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 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.

B. Riley Financial, Inc. is headquartered in Los Angeles with offices in major financial markets throughout the United States, Europe, and Australia. For more information on B. Riley Financial, Inc., please visit www.brileyfin.com.

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