

Monitor

Automotive

VOLUME

234

DEMAND TAPS THE BRAKES

NEW VEHICLE SALES

Major U.S. automakers finished 2016 with sales growth, while some in Europe lagged behind.

DOMESTIC DEMAND

An overall slowdown in demand suggests the automotive market may have plateaued.

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Trend Tracker

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

OEM PARTS

NOLVs for finished goods OEM parts decreased up to three percentage points in the latter half of 2016, despite positive sales trends and gross margin indicators. The decreases were attributed to most companies' unfavorable shifts in product mix toward lower-recovery raw materials and work-in-process.

Sales increased up to 10% for most OEM parts manufacturers and distributors, primarily due to positive market conditions, which drove increased purchases from existing customers.

Gross margins increased up to 5% for most companies as a result of improved product mix and favorable metals pricing.

Inventory levels increased up to 20%, due to the aforementioned increase in sales volumes, which can have a favorable impact on NOLVs, as increased inventory levels result in a leveraging of expenses as a percentage of inventory at cost.

AFTERMARKET REPLACEMENT PARTS

NOLVs for aftermarket replacement parts increased up to five percentage points due to moderately increased gross margins.

Sales of aftermarket replacement parts decreased up to 10% in the final half of 2016, driven by unfavorable exchange rates and global commodities pricing. Nonetheless, some companies overcame these factors to post improved sales via acquisitions and successful new products.

With continued low fuel prices capping off 2016, many consumers spent a greater amount of time behind the wheel, increasing wear on their vehicles and bolstering demand for replacement and repair parts. Cumulative travel totaled 85 billion miles as of November 2016, up 3.0% from the prior year, according to the Federal Highway Administration.

Gross margins for aftermarket replacement parts improved slightly, due to a combination of generally positive market conditions and improved product mix.

GA observed that inventory levels for many companies increased up to 15% in preparation of new product launches.

Trend Tracker

AFTERMARKET ACCESSORIES

NOLVs for aftermarket accessories increased, primarily due to improved inventory turns and gross margins.

Sales of aftermarket accessories for many companies increased up to 4% in the latter half of 2016, with modest growth attributed to improvements in the economy.

GA observed that gross margins improved over the second half of 2016, primarily due to favorable aluminum pricing. Aluminum is commonly utilized in the production of aftermarket automotive accessories, such as alloy wheels, due to its durability and corrosion-resistant properties.

Inventory levels decreased 5% to 10%, depending on the company, with some companies citing higher sales volumes and internal initiatives to improve cash management as primary drivers.

NOLVs for tire manufacturers were mixed in the second half of 2016, depending on each company's ability to monitor and manage slow-moving inventory levels.

Many companies witnessed tire sales decrease as much as 15% in the final half of 2016 due to a combination of increased competition and falling rubber prices.

GA observed that gross margins increased up to two percentage points, due to reduced acquisition costs.

Inventory levels moderately decreased through the second half of 2016, with many companies experiencing declines of up to 5%, primarily due to similar market pricing factors.

Going forward, natural rubber prices are anticipated to rise in line with growth in international automotive markets, particularly in China. Global tire shipments increased by 2% year over year to 2.0 billion units, while China's automotive tire output edged up 1.2% to 572 million units.



Overview

The U.S. auto industry finished 2016 with steady sales, leading to an unprecedented seven-year streak in year-over-year sales increases. Light vehicle sales totaled 17.5 million units for the year, an increase of approximately 0.4% as compared to 2015. However, experts suggest growth has plateaued, as pent-up consumer demand for new vehicles is satisfied and manufacturers cut production of slower-selling vehicle lines.

Sales growth benefited several segments of the automotive market, as demand for OEM parts and aftermarket accessories is directly impacted by the number of new vehicles introduced to the open road.

With continued low gas prices, more Americans found themselves behind the wheel in 2016. Travel on all roads and streets rose 4.3% in November 2016 versus the prior year, and cumulative travel for the year increased 3.0% to total approximately 85.0 billion vehicle miles, which translates to increased wear on vehicle engines, parts, and tires.

As such, demand for OEM and replacement parts is anticipated to remain relatively strong going forward.

In 2016, many consumers continued to take advantage of accessible credit, low interest rates, and other incentives offered by automotive manufacturers and dealers. However, analysts suggest the automotive market may have plateaued, with sales in 2017 potentially impacted by rising interest rates and tightened lending standards in response to the climbing subprime delinquency rate. Additionally, the industry may face higher costs with new trade restrictions introduced by the new presidential administration.



New Vehicle Sales

The U.S. auto industry continued to report overall growth through the second half of 2016. Attractive interest rates, low gas prices, and increasing disposable incomes were primary drivers of demand for light trucks, crossovers, and SUVs. However, attractive used car prices tempered new vehicle sales in 2016 as regional markets were impacted by the loss of oil and gas jobs.

New vehicle sales in October 2016 fell 0.8% versus the prior year despite plummeting interest rates and gas prices, with experts pointing to the satiation of pent-up demand.

November 2016 sales proved far stronger, up 3.7% from the prior year due to the timing of Black Friday promotions, incentives, and continued low interest rates. In addition, more than 48.7 million Americans opted to hit the road for Thanksgiving, representing a 1.9% increase in those traveling versus November 2015 and adding to new vehicle sales.

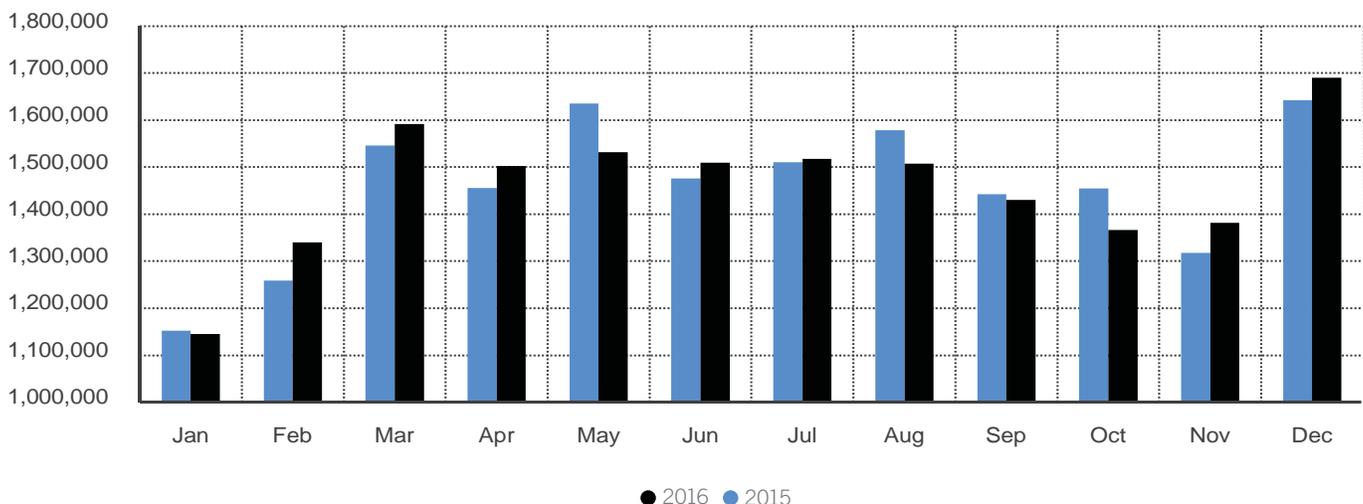
Contrary to industry forecasts, new vehicle sales in December 2016 rose 3.0% from the same month in 2015, with sales for the month totaling 1.6 million units due to average incentives increasing 20.0% versus the same period in the prior year.

Many automakers witnessed a shift in consumer preference toward trucks, SUVs, and crossovers in 2016, as these larger vehicles became increasingly fuel-efficient and safer with innovative and assistive features, all while remaining spacious and adaptable. Domestic light truck sales, including SUVs and crossovers, rose 7.2% in 2016 versus the prior year, accounting for 59.5% of all vehicles sold in the U.S. in 2016.



Electric vehicle sales in the U.S. were reported to total 25 thousand units in December 2016, an 80.0% increase over the prior year, and bringing the total number of electric vehicles on the road in the U.S. to over 500,000. Roughly 81.0% of sales were related to Tesla's Model S and X vehicles, as well as the Chevy Volt and Nissan Leaf.

1 U.S. Auto Sales 12 Months Ended December 2016 versus 2015 (in Units Sold)



Domestic Manufacturers

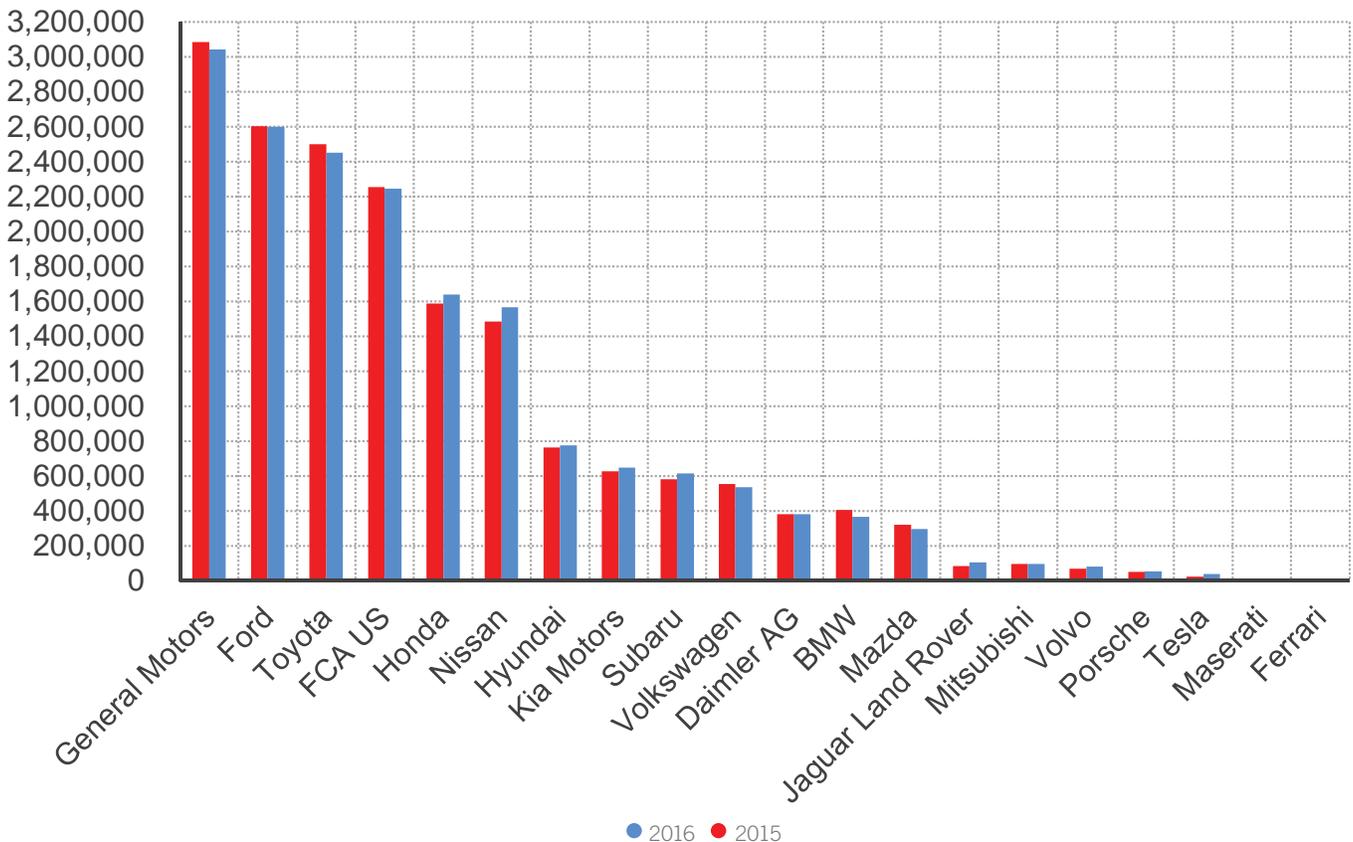
According to an early January press release, Ford sold over 2.6 million units in the U.S. in 2016, marking the company's strongest annual sales record in a decade and securing Ford's position as America's best-selling vehicle brand for seven consecutive years. Sales were boosted by its SUV and Lincoln lines, up 5% and 18%, respectively, in December 2016 versus the prior year, with vehicle sales totaling 239,854 units and up 0.3% in December 2016 versus the same period in 2015.

General Motors reported similarly positive results in 2016, with the company's retail market share up 0.3% in December 2016 and 0.5% for the overall year. The company attributed growth to the continued popularity of Chevrolet and the brand's successful launch of the all-new Equinox and Traverse product lines.

GM sold 319,108 vehicles to retail customers in December 2016, up 10% year-over-year, driven by sales increases for its Chevrolet, Buick, and Cadillac brands and securing GM's position as the fastest-growing full-line automaker in the U.S. In addition, GM's brands collectively reported their best December retail sales performance since 2007.

FCA US LLC (Fiat Chrysler Automobiles) sold 192,519 vehicles in the U.S. in December 2016, up 10% versus the same period in the prior year. The automaker's sales were largely driven by the continued success of its Ram Truck line, which experienced a 10% increase in sales year-over-year. While the company's Jeep sales were down 6% in December 2016, Jeep posted a 6% increase in sales for the full year, due to sales increases of 39% and 13% for the Renegade and Grand Cherokee lines, respectively, in December 2016 versus 2015.

2 U.S. Light Vehicle Retail Sales 12 Months Ended December 2016 versus 2015 (in Units Sold)



European Market

AUTOMOTIVE INDUSTRY OVERVIEW

The European automotive industry overall experienced positive results in 2016. Despite political instability and economic uncertainty surrounding major 2016 events, such as the U.K.'s exit from the European Union and a referendum in Italy, consumer confidence kept many European markets afloat.

New vehicle registrations across the European Union grew by 3.2% in December 2016 versus the prior year, reaching nearly 1.2 million units sold, according to the European Automobile Manufacturers Association. European auto sales totaled over 15.1 million vehicles in 2016, up 6.5% versus the prior year and marking a nine-year high for the European market.

Industry experts remain guarded in their projections for 2017 as the full ramifications of the U.K.'s departure from the European Union have yet to be fully understood. As such, vehicle sales are anticipated to grow roughly 1.8% in 2017.

PERFORMANCE BY MARKET

The U.K.'s sales fell 5.5% in December 2016 versus the prior year, totaling 2.7 million vehicles. Industry experts cited the U.K.'s referendum outcome to exit the European Union as the primary factor behind the region's recent streak of sales declines; however, full-year U.K. sales were up 2% versus 2015 due to continued robust sales to fleet buyers.

Europe's largest market, Germany, experienced a 4.5% boost in full-year sales for 2016 versus the prior year. France followed suit with a 5.1% sales increase in 2016.

The Southern European markets enjoyed strong sales growth for the remainder of the year. Italy's sales rose 16% in 2016 versus the prior year, while Spain reported an 11% increase in full-year sales, due to growing consumer confidence.



PERFORMANCE BY MANUFACTURER

Most major European manufacturers experienced positive overall performances in 2016. The Volkswagen Group reported 7.1% sales growth in Europe in December 2016, despite the automaker's continued struggle in the U.S. in the wake of the company's emissions scandal and settlement. The group's growth was largely attributed to December 2016 sales increases of 64% and 17% for Porsche and Audi, respectively.

The Renault Group, which includes the Renault and Dacia brands, posted a 14% increase in sales in December 2016 versus the prior year, overtaking the PSA Group as Europe's second-largest automaker after the Volkswagen Group.

In contrast, the PSA Group reported a 15% sales decrease in December 2016 versus the prior year, due to sales declines of 15%, 10%, and 41% for Peugeot, Citroën, and DS Automobiles, respectively, in December 2016, as the group continues to struggle with an aging lineup of vehicles.

American-based manufacturers fared similarly in Europe, as Ford reported a 4.2% decrease in December 2016 versus 2015; despite the decline, Ford remains the number one commercial vehicle brand in the European market.

Experience

GA 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.

GA's extensive list of appraisal experience includes:

- 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.

GA 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, GA maintains contacts within the automotive industry that we utilize for insight and perspective on recovery values.



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