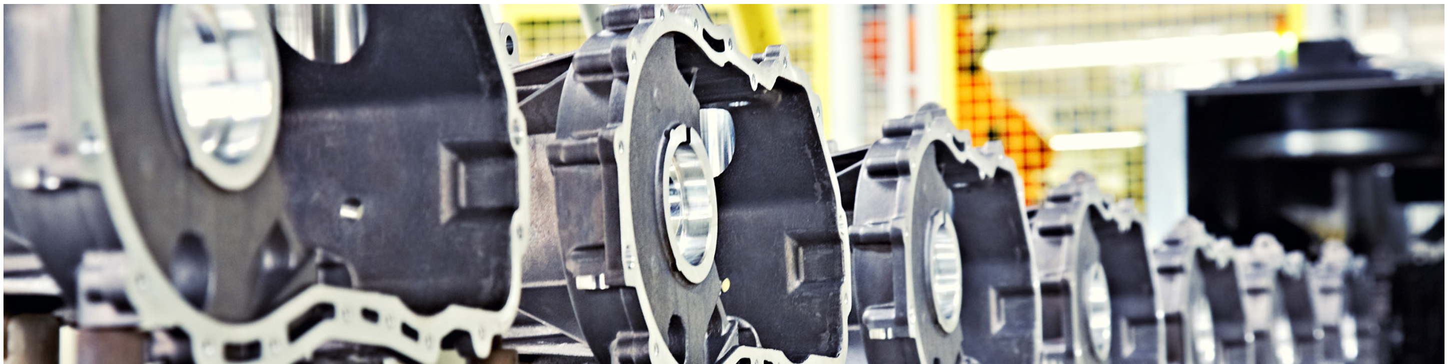


# AUTOMOTIVE MANUFACTURING

## CURRENT TRENDS

- Strong light vehicle sales for March 2019, up 1.1%, were offset by declining sales in April, down 5.0%, resulting in lower year-to-date totals over 2018
- Values for large-tonnage stamping presses have decreased slightly during the past 12 months
- Momentum for electric vehicles has also stalled due to lower oil prices

## PROJECTED VALUES
(12-MONTH OUTLOOK)

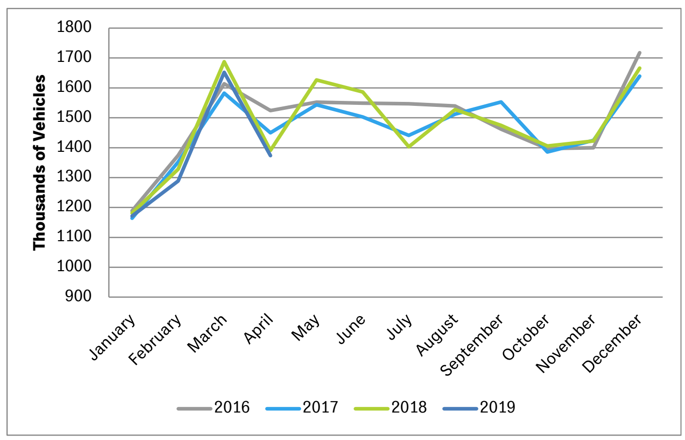

## GORDON BROTHERS BY THE NUMBERS

**$86B**
transportation assets appraised & disposed

**2,100+**
transportation engagements

**8,500+**
data points in proprietary database

## TOTAL VEHICLE SALES (NSA)



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**INDUSTRY SNAPSHOT:** The automotive industry is a mature market experiencing declining demand. The post-recession industry has adapted to a wide variety of changes including, but not limited to, government bailouts, environmental initiatives, government legislation, and the appreciating U.S. dollar. After seven straight years of increases, domestic light auto sales dipped 1.9 percent in 2017. While 2018 saw a slight increase in sales of 1.1 percent, 2019 year-to-date sales reflect a decrease of 3.5 percent. After a slow start to the year, U.S. sales increased over last year in the month of March 2019; however, April 2019 sales were disappointing, declining 5.0 percent over last year. In total, U.S. vehicle unit sales were down 1.9 percent through the end of April over the same period last year.

Momentum for electric vehicles has also stalled due to continued lower oil prices. Tesla Inc. reported a loss of $700 million for the first quarter of 2019 but predicted it would return to profitability in the third quarter as it cuts costs and improves deliveries after facing issues ramping up shipments outside the United States. Despite the boost in domestic light vehicle sales for March, the overall auto industry is currently projected to decline in 2019. U.S. automakers are projected to sell 16.9 million light vehicles in 2019 as compared to 17.3 million units sold in 2018.

**MIXED SUPPLIER RESULTS AS SALES DROP:** Earnings for first-quarter 2019 for Tier 1 suppliers were mixed, as several have announced reduced net income and lowered their 2019 outlooks. Bosch issued a warning that 2019 sales will stagnate in the face of a slowdown in the global economy, continuing trade disputes, and, in Europe, the effects of Brexit. Companies including 3M, Rockwell Automation, and Visteon have all reported that their 2019 earnings will be lower than they had predicted, in addition to reporting weaker results than Wall Street had expected.

To meet complex original equipment manufacturer (OEM) requirements and tighter production schedules, automotive suppliers are expanding and investing in operations. In May 2019, Tier 1 supplier DaikyoNishikawa U.S. announced plans to invest $110 million to open an auto parts manufacturing facility to serve the Mazda Toyota Manufacturing U.S.A. assembly plant now under construction in Huntsville, Alabama. German auto supplier Webasto announced in May 2019 that it is expanding its operations in Michigan by announcing plans to invest $48 million for a new 300,000–square-foot manufacturing facility in Plymouth Township after obtaining several contracts from Ford and Fiat Chrysler. These recent examples of expansion and investment are an indicator of a rapidly growing market for machinery used to manufacture automotive parts and assemblies.

**TECHNOLOGICAL ADVANCES LEAD TO INCREASED EFFICIENCIES:** Due to the historically labor-intensive nature of automotive production, technological changes are rapid, as companies look to reduce labor costs and increase overall efficiency. The late-model nature of the subject assets makes them more marketable, as they possess current technology and capacity and allow for OEMs to continue their focus on streamlining production processes, reducing labor requirements, and increasing efficiencies. This further allows the industry to increase revenue growth at higher rates than wage growth, which has largely been achieved over the last few years. With this industry picking up, many suppliers have also changed the way they finance their operations. The market is seeing companies take advantage of low interest rates and higher used machinery values to find competitive, affordable financing to expand operations.

**STAMPING PRESS VALUES MIXED:** Recent market research indicates that the market for stamping presses in general is stable to slightly down. Within the metal stamping machinery market there can be distinct value trends based on equipment specifications. As an example, in the current market, values for higher-tonnage machines (1,000+ ton capacities) are slightly depressed, as demand from the automotive segment, which drives a significant percentage of manufacturing demand for larger presses, is down relative to demand from 2011 through 2016. However, these values are still well above market lows from 2008 through 2011. While demand has fallen for these presses, there are very few of these available on the used market. Alternatively, current values for medium tonnage machines (100- to 400-ton capacities) are stronger, as that equipment is typically in higher demand for smaller, precision stamping piecework used in a variety of industries. In all press sizes, late model machines 10 years and newer are the most desirable, while those built prior to 1970 are less desirable.

**MARKET FOR DIE CAST EQUIPMENT IS STABLE:** Industry participants report that there is currently a healthy balance of supply and demand for die casting equipment in the secondary marketplace. Late-model machines are selling well, particularly those with shot end and control advancements. Certain manufacturers, such as BuhlerPrince, are particularly desirable because used machines are not readily available and new machines are subject to long lead times. Older machines and machines in poorer condition are not as marketable. The most popular size machines are between 400- and 800-ton capacity. Machines with larger than 1,200-ton capacity require a longer market period due to a more limited user base. Lenders should discuss appropriate liquidation timeframes with appraisers for these sizes of machines.

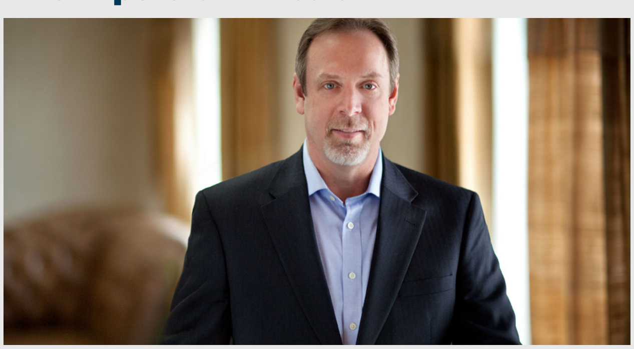
The current market for die cast machines is for late-model or new equipment. Most buyers are currently looking for machines that are less than 10 years old. If the equipment is 15 years or older, the machinery is perceived as needing a rebuild. In these cases, users will take into account the cost of rebuild and compare that to the cost of a new machine.

**MAINTENANCE CRITICAL TO MAINTAINING VALUE:** The age, maintenance practices, and utilization of machinery are all key value considerations. Newer equipment is generally more desirable, as the market seeks the most modern technology. Maintenance practices are important as proper care can extend the useful life of equipment beyond what is normal and expected. Poor maintenance can shorten the life of machinery and lead to production issues. Utilization is important since a machine being run on a single shift will have a longer chronological life than a machine running multiple shifts. These multiple shifts increase the effective age and reduce the remaining life, thereby affecting value. Lenders should expect appraisers to consider these factors when estimating value.

**LENDERS SHOULD BE WARY OF CERTAIN COLLATERAL:** Custom assembly, sequencing, and single-purpose automotive production machinery is generally expensive to purchase due to high design and engineering costs. These machines will have very limited resale value unless sold to an end user making the exact same part. In liquidation scenarios, these machines generally only have component or scrap value. Other equipment with potential for limited value return includes painting equipment, part-specific test and measurement equipment, and installation-intensive equipment, which can be cost prohibitive to remove. Standard metalworking and plastics equipment, which remain common in many types of manufacturing, are typically widely marketable and represent good collateral.

Gordon Brothers is closely monitoring several key issues including the recent announcement by Ford to cut 10 percent of its white-collar workforce by August 2019 and GM's previously announced closings of five plants in North America as well as white-collar layoffs in 2019. Also, the continuing effects related to import tariffs imposed by the Trump administration and any changes to state and federal regulations should be routinely monitored, as significant changes may impact future equipment values.

## **The Expert:** Jim Brodie



Jim Brodie brings over 30 years of experience to the Gordon Brothers valuation division. He specializes in valuing machinery and equipment and other tangible assets. Jim has led appraisal and liquidation projects for asset-based and other commercial lenders, and private equity groups throughout the world. Read his full bio here

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