RECREATIONAL VEHICLES

CURRENT TRENDS

- Year to date through April 2020, total RV unit shipments were down 23.3% over 2019 as nationwide retail and manufacturing shutdowns related to the COVID-19 pandemic continued.
- Industry growth projections are varied; however, market research company Technavio projects annual growth rates of 7.6% through 2023, driven by increased technological features being added to RV platforms.
- Despite the positive outlook, the evolving pandemic has had a negative impact on the RV market, with lower unit sales and leisure travel forecasts being reported.

PROJECTED VALUES
(12-MONTH OUTLOOK)

DECREASING STABLE INCREASING

APPROXIMATE NET RECOVERY ON COST

80-100%
finished vehicles

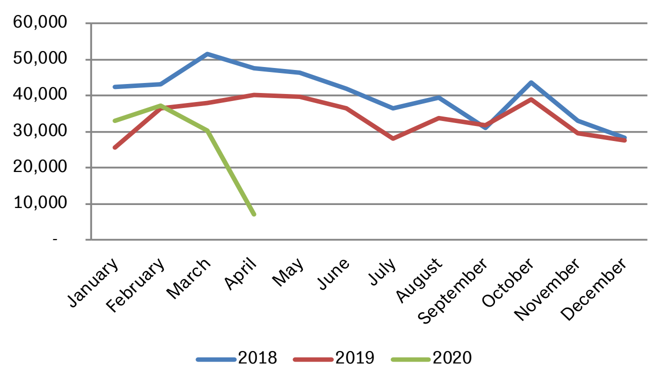
20-60%
WIP units

10-30%
WIP parts

50-70%
standard chassis

10-40%
raw materials

WHOLESALE RECREATIONAL VEHICLE SHIPMENTS



-23.3%
total YTD wholesale rv shipments

REFERENCE SOURCES: THE RECREATION VEHICLE INDUSTRY ASSOCIATION, IBISWORLD, BUSINESS WIRE, THE CHICAGO TRIBUNE

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COVID-19 IMPACTS THE RV MARKET: Shifting from the downward trend in wholesale RV shipments during the fourth quarter of 2019, total shipments for the first two months of 2020 were up 13.2 percent over the same period in 2019. Year over year, December 2019 was down 3.0 percent from December 2018; however, total RV shipments in January and February were up 29.2 percent and 1.9 percent, respectively, showing a positive turn in the market at the time.

However, the worldwide coronavirus outbreak, which was declared a pandemic on March 11, 2020, and the associated measures taken to combat COVID-19 have since had a negative impact on business in this sector. The industry was not considered essential in most jurisdictions, and, after posting positive results for the first two months of 2020, the RV Industry Association's (RVIA) March 2020 survey of manufacturers found that total RV shipments ended the month with 30,288 units, a decrease of 20.3 percent from the 38,015 units shipped in March 2019. March 2020 was also the first month when the industry saw manufacturers closing production facilities in response to the growing COVID-19 crisis. Towable RVs, led by conventional travel trailers, totaled 27,723 units for the month, a decrease of 17.9 percent compared to last March's total of 33,754 units. Motorhomes finished the month with 2,565 units, down 39.8 percent compared to the March 2019 total of 4,261 units.

As expected, April shipments were hit even harder as nationwide retail and manufacturing shutdowns continued related to the pandemic response. The RVIA's April 2020 survey of manufacturers reported that total RV shipments were reduced significantly, ending the month with just 7,197 units, representing a decrease of 82.1 percent over April 2019. Year to date through April 2020, total RV unit shipments were down 23.3 percent over 2019.

Despite this decline, production began ramping up again in late April and early May at major RV manufacturers. Dealers currently report strong demand for RV rentals and sales as travelers look for options that minimize the risk of exposure to the coronavirus, and RVs offer a way of traveling in a safe manner while still maintaining social distancing.

MODERATE GROWTH FORECASTED: Industry revenue is expected to increase as disposable income and consumer spending gradually improve. Also impacting RV sales is the aging American population, as older consumers comprise a major share of RV purchases. The number of people in the 50-and-older demographic is projected to increase to 125.0 million by 2025 from 118.0 million at the end of 2019. With demand from baby boomers increasing, short-term growth is expected. However, this may be tempered by declining consumer sentiment. Considering these factors, industry revenue is forecasted to increase at an annualized rate of 2.2 percent through 2024 based on analysis by IBISWorld.

However, the latest growth projections according to market research company Technavio are more positive for the shorter term. Technavio projects annual growth rates of 7.6 percent through 2023 driven by increased technological features being added to RV platforms. Despite positive forecasts, ultimately it remains to be seen how willing consumers will be to purchase in a post-COVID-19 marketplace.

SEASONALITY A FACTOR: Retailers preparing for the peak spring and summer sale season typically stock up on inventory during March, April, and May before the summer driving season. Lenders should consider a seasonality analysis when ordering inventory appraisals to determine the extent to which values are impacted by these buying trends. A high/low analysis, which illustrates values during peak and valley demand periods, may also help mitigate the risk involving businesses, such as RV dealers, with seasonal fluctuations

COMPONENT PARTS VARY IN MARKETABILITY: Manufacturers' inventories are composed primarily of parts purchased from suppliers. The value of these components is derived from their utility in the marketplace. Parts that are very specific to platforms such as awnings, extrusions, wiring harnesses, tables, windows, and doors typically have low recovery values. Other inventory such as carpeting and wall coverings that can be marketed to buyers outside the industry fare a bit better. Items that are more generic and widely marketable such as televisions, appliances, mattresses, and aluminum or fiberglass sheets are typically expected to have the highest net recoveries.

MAJOR INVENTORY CATEGORY: A chassis is the base frame of the vehicle along with wheels, engine, and transmission. In some cases, the chassis may include the cab and steering mechanisms as well. While one of the most significant portions of the cost of RVs, chassis are not necessarily the most valuable category in a liquidation. Appraisers must analyze supply and demand for each particular platform to estimate recoveries. For example, in the current market, Freightliner Class A chassis are still in demand regardless of sales trending down year-to-date for Class A product. Lenders should be aware that modified chassis have limited value in a liquidation scenario.

FINANCING ASSUMPTIONS ARE IMPORTANT: With the exception of towables, most manufacturers are typically not making vehicles to stock; rather, they are manufacturing based on independent dealers' orders. This means that, in a liquidation, units would continue to sell through this channel. Dealers typically purchase units with floor plan financing. According to the Commercial Finance Association, this means a distributor or dealer accepts shipment of merchandise from a manufacturer by borrowing funds from a finance company, bank, or manufacturer captive. Repayment terms are linked to the sale of the merchandise (pay-as-sold) or according to a schedule (scheduled pay).

Gordon Brothers' appraisers assume dealers would have access to those plans in a liquidation scenario or that alternative financing would be arranged by other lenders. In some cases, repurchase agreements are in place through which manufacturers will buy back unsold units at a discount if they do not sell within specific timeframes. Dealers accustomed to these terms will seek greater discounts in liquidation.

LACK OF WARRANTY LOWERS RECOVERIES: Buyers of new RVs typically expect three- to five-year warranties. In a liquidation, however, manufacturers no longer honor these contracts, which means that units must either be sold without a warranty or dealers must assume the associated liability. Because of this additional risk, dealers will expect steeper discounts when purchasing RVs in liquidation.

The Expert: Erick Beaudoin

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