



AUTOMOTIVE MANUFACTURING

CURRENT TRENDS

- As the economy has reopened, new vehicle unit sales increased 32% between May 2020 and May 2021.
- Semiconductor shortages have caused temporary plant shutdowns as auto manufacturers struggle to meet production needs.
- Used light vehicle prices increased 20% between April 2020 and April 2021.
- Electric vehicle sales continue to grow as manufacturers introduce new models.
- Automotive production machinery and equipment values are steady to improving.

PROJECTED VALUES (12-MONTH OUTLOOK)



GORDON BROTHERS BY THE NUMBERS

\$86B

transportation assets
appraised & disposed

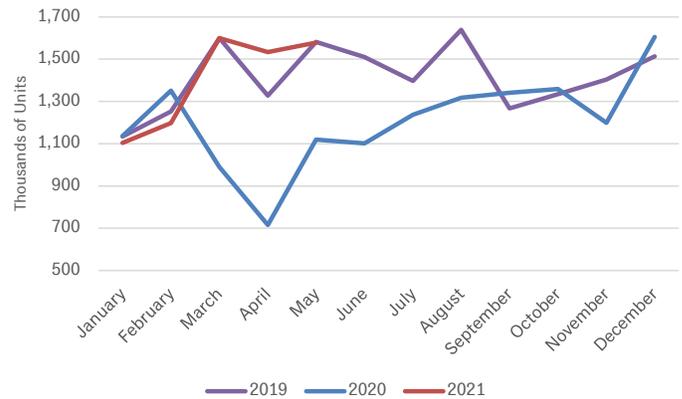
2,100+

transportation
engagements

8,500+

data points in proprietary
database

TOTAL U.S. LIGHT VEHICLE SALES



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INDUSTRY REBOUNDING FROM PANDEMIC: The COVID-19 pandemic had a significant impact on automotive production and demand in 2020. Light vehicle sales in the U.S. underperformed, selling only 14.5 million units against a forecast of 16.8 million units. This represented a decrease of 14.7% from 2019 sales of 16.9 units, according to the U.S. Bureau of Economic Analysis. However, after a sluggish start to 2021, light vehicle sales rebounded through May and were tracking to a seasonally adjusted annual rate of 17.5 million units. Light vehicle unit sales through May were up 32% over the same period in 2020 and up 1.7% over 2019, indicating improved consumer sentiment beyond pre-pandemic levels.

SEMICONDUCTOR SHORTAGES AFFECTING PRODUCTION: A semiconductor shortage has caused production disruptions as global automakers struggle with limited supplies. Companies canceled orders after forecasting lower demand because of the pandemic. When the auto industry unexpectedly rebounded, it sent semiconductor supply into a downward spiral leading to the shortfall. KPMG reports these shortages could cost global automakers \$100 billion in lost revenues in 2021 and forecasts shortages to continue into 2022 before supply meets demand.

USED VEHICLE PRICES INCREASING: May 2021 prices for used cars were 21% higher than May 2020, according to the U.S. Bureau of Labor Statistics. This compares with a 2% increase in new car prices over the same period. Despite the high price of used cars, the semiconductor shortage has prompted many automakers to slow or pause production, making new cars scarce. Even rental car companies are buying used cars to bring their fleets back in line with rising demand, according to Consumer Reports.

ELECTRIC VEHICLE DEMAND SURGING: Sales of electric vehicles (EVs), automobiles featuring large battery packs and electric motors in the propulsion system, jumped 81% in the first quarter 2021 as sales volume hit 300,000 units combined for electric, hybrid and plug-in hybrids. Sales growth for both electric and hybrid vehicles outpaced overall market performance in the first quarter 2021, according to a Cox Automotive and Kelley Blue Book U.S. auto market analysis.

EVs accounted for 7.8% of the total U.S. market for the first quarter of 2021. This is a 4.8% increase from the same period in 2020, with an 81% sales growth, which far outpaces overall automobile industry growth of 11.4% in the first quarter.

The Expert: Jim Brodie



Jim Brodie brings over 30 years of experience to the Gordon Brothers valuation practice. 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](#).

Battery electric vehicles (BEV), also referred to as pure-electric, only-electric or all-electric vehicles, exclusively use energy stored in rechargeable battery packs with no secondary source of propulsion. BEV sales increased by 44.8% year over year for the first quarter 2021, reaching almost 100,000 in unit sales for the period and setting an industry record. Similarly, hybrid vehicle sales outpaced both the auto and electric markets, doubling to more than 200,000 for the quarter.

VALUATION OUTLOOK: Automotive production machinery and equipment values are steady to improving. The secondary market has seen increased activity for late model quality used equipment, while values for large tonnage stamping presses have improved over the past 12 months. Older equipment, while still saleable, will have declining values as buyers instead look to newer equipment.

Auction activities have returned to pre-pandemic levels in the U.S. and Canada with facilities hosting a variety of live, webcast and online auctions. Gordon Brothers expects the secondary market to resume near-normal functions moving forward; however, there will be a high level of dealer inventory to work through, and more equipment will likely come to market because of plant closures and consolidations.

MAINTENANCE IS CRITICAL TO VALUE: Machinery's age, maintenance practices and use are all key value considerations. Consumers generally want newer equipment, as the market seeks the most modern technology. Maintenance practices are essential since proper care can extend equipment's useful life beyond what is normal and expected.

Conversely, poor maintenance can shorten machinery's life and lead to production issues. The amount of use is important since a machine that runs 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 TAKE CAUTION WITH CERTAIN COLLATERAL:

Custom assembly, sequencing and single-purpose automotive production machinery is generally expensive to purchase because of high design and engineering costs. These machines will have very limited resale value unless an end user making the exact same part buys them. 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.



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