RECREATIONAL VEHICLES

CURRENT TRENDS

- Wholesale recreational vehicle (RV) shipments during the first four months of 2021 rose more than 86% over 2020, because consumer demand for RVs has soared since the pandemic's onset.
- Analysts expect industry revenue to increase 1.1% through 2026 as U.S. residents continue to plan domestic trips because of continued travel restrictions around the globe.
- Despite the positive outlook, environmental and government regulations regarding fuel efficiency and emission standards will likely negatively affect industry manufacturers over the next several years. These factors will dampen industry growth in the medium to longer term.

PROJECTED VALUES
(12-MONTH OUTLOOK)

DECREASING **STABLE** **INCREASING**

APPROXIMATE NET RECOVERY ON COST

80-100%
finished vehicles

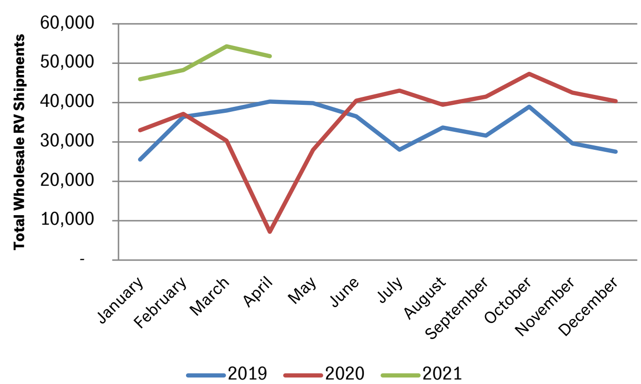
20-60%
work-in-process units

10-30%
work-in-process parts

50-70%
standard chassis

10-40%
raw materials

WHOLESALE RV SHIPMENTS



+86.2%
YTD wholesale rv shipments

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RV MARKET AT RECORD LEVELS: RV manufacturers have continued to set shipment records over the past six months, sending record numbers of wholesale RVs to dealerships as consumer demand continues to increase. Because of this demand, wholesale shipments for the first quarter of 2021 were at a record level of 148,507 units, representing a nearly 10% increase over the prior high in 2018. This level was approximately 48% more than the first quarter of 2020, according to the Recreational Vehicle Industry Association (RVIA).

Wholesale shipments for the first four months of 2021 rose more than 86% over 2020. They reached a record level of 54,291 units in March 2021, which is an increase of more than 5% over the previous record set in March 2018. The momentum carried into April, with total shipments increasing 620% over April 2020, when shipments fell to an all-time low as nationwide shutdowns brought the industry to a standstill and production ceased.

Consumer demand for RVs began to rebound in June 2020, as people sought safer alternatives to air and train travel. This demand appears to be sustainable with a recent RVIA survey showing 56 million Americans plan to travel in an RV they own, rent or borrow in the summer of 2021.

MODERATE GROWTH FORECASTED: Analysts expect industry revenue to increase at an annualized rate of 1.1% through 2026, as disposable income and consumer spending gradually improve post-pandemic, according to research firm IBISWorld. The aging American population contributes to the steady increase in sales, as older consumers constitute a major share of RV purchases . Retired people spend more time traveling and vacationing, and RV living is appealing to them. Forecasts project a total of 126.7 million consumers aged 50 and older by 2026, a substantial increase from 120.5 million in 2021.

While older consumers have traditionally been the main demographic for the category, industry analysts expect new offerings geared more toward younger consumers and families to boost interest outside traditional market demographics. According to a recent study from Go RVing, a consumer-facing website for the RV industry, nearly 25% of current RV owners are younger than 35 and plan to purchase and upgrade to a new unit in the next five years. This indicates growth potential for the industry.

Additionally, IBISWorld projects domestic travel in the U.S. will grow at an annualized rate of 4.5%, which will have a positive impact on the RV industry.

ENVIRONMENTAL CONCERNS: While forecasters project moderate growth through 2026, environmental concerns have become an increasingly important hurdle for the industry. Environmental regulations regarding fuel efficiency and international agreements to curb carbon dioxide emissions will play an important part for the RV industry.

The Expert: Erick Beaudoin

Erick Beaudoin is a director in Gordon Brothers' Industrial Inventory Valuation practice. His industry specialties include building products, fabricated metal products, fabricated plastics products, automotive, paper, agricultural food products, dairy, sporting goods, fracking sand, and RVs. Read his full bio here.

Regulatory proposals include raising fuel taxes, which would increase transportation costs and adversely affect demand. Hybrid-electric engines have the potential to offset increased environmental regulations, but commercially viable options are not yet available in the RV space.

SEASONALITY A FACTOR: Retailers preparing for the peak spring and summer sale season typically stock up on inventory from March through May, ahead of the summer driving season.

Lenders should consider a seasonality analysis for appraisals in the RV sector, so they can better understand the extent to which seasonal buying trends may impact values. 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 they purchase from suppliers. These parts are more valuable when manufacturers use them more often. Therefore, 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 can be marketed to buyers outside the industry and fare a bit better. Analysts expect items that are more generic and widely marketable such as televisions, appliances, mattresses and aluminum or fiberglass sheets 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 it is one of the most significant portions of RVs' cost, the chassis is not necessarily the most valuable category in a liquidation. Appraisers must analyze supply and demand for each platform to estimate recoveries. Lenders should be aware modified chassis have limited value in a liquidation scenario.

FINANCING ASSUMPTIONS ARE IMPORTANT: Apart from towables, most manufacturers are typically not making vehicles to stock; rather, they are manufacturing based on independent dealers' orders. Because of this, units would continue to sell through this channel in a liquidation. Dealers typically purchase units with floor plan financing, which is a revolving line of credit against a specific piece of collateral, such as an RV. According to the Commercial Finance Association, this means a distributor or dealer accepts merchandise shipment from a manufacturer by borrowing funds with repayment terms linked to the merchandise sale, or according to a schedule.

Gordon Brothers' appraisers assume dealers would have access to those plans in a liquidation scenario, or they could arrange alternative financing. In some cases, manufacturers have repurchase agreements, through which they 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: New RV buyers typically expect three- to five-year warranties. In a liquidation, however, manufacturers no longer honor these contracts, which means they must either sell units without a warranty or assume the associated liability. Because of this additional risk, dealers will expect steeper discounts when purchasing RVs in liquidation.

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