



# Hilco™

## Valuation Services Automotive Industry Perspective

1ST QUARTER 2019



### INDUSTRY EXPERIENCE

Keith Spacapan is Vice President of Hilco's automotive practice. Keith has more than 30 years of automotive industry experience, including 15 years with General Motors as a divisional director of operations and finance. He has also worked with a wide range of automotive suppliers. His unique dual perspective—original equipment manufacturing and related suppliers—fosters a full understanding of the dynamics which impact asset value.

### VALUATION EXPERIENCE

FleetPride  
Gates Corporation  
GST AutoLeather  
Mefro Wheels  
Motovan  
Navistar  
Roadtrek  
Tesla  
Thor Industries  
TI Automotive

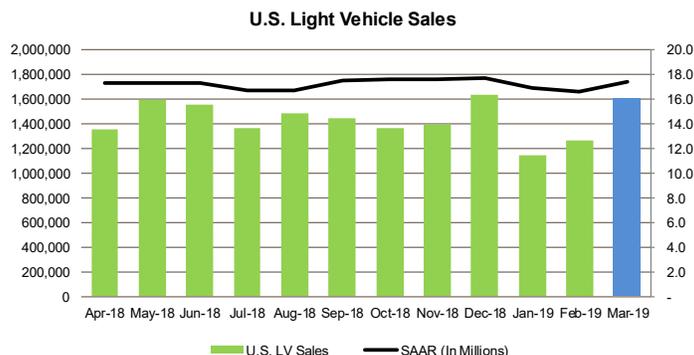
## “Keep an Eye on the Inventory”

By Keith Spacapan

In the first quarter, U.S. light vehicle sales totaled 3,989,468 units; the first time in four years that sales fell below 4 million vehicles in any three-month period. That figure represents a seasonally adjusted annual rate (SAAR) of 17.0 million vehicles. In contrast, the monthly SAAR has averaged nearly 17.3 million vehicles since March 2015. Most industry economists accept that sales have peaked and are now headed into a normal, post-peak slowdown

In a survey of senior loan officers, the Federal Reserve found that banks moderately tightened standards for auto loans. The result, new vehicle APRs increased to 6.36% in March, the highest level in a decade. Based upon Edmunds data, we know that new car loans at interest rates of 10% or higher comprised 14.1% of the market in March, their highest level since February 2008. How much longer can new car shoppers finance cars at rates normally associate with used vehicle purchases? We may be on the verge of a dramatic shift in the market simply because more and more buyers are getting priced out.

For now, at least, the Federal Reserve has no plans to raise interest rates further in 2019. Nonetheless, the industry remains on edge pending the



	Compared to Last Month	Currently	Compared to Last Year
Finance Cost	↔	6.36%	↑
Fuel Cost	↑	\$2.735/gal	↑
Inventory	↓	70 days	↔
Incentives	↔	\$3,604/veh	↓

outcome of trade negotiations. In a recent report, the Center for Automotive Research warned that franchised dealers stand to lose 77,000 jobs and \$43.6 billion; an average of \$2.6 million per-dealership. It is important to consider that this is the same network that the industry relies on to “move the metal.” Notably, these dealers held a 78-day supply of new vehicles as of March 31, 2019, the highest days’ supply for this time of year since 2009.

Keep an eye on the inventory. It's always easier to build inventory than to sell it down,

particularly during a downturn. In March 2009, the dealer inventory was only 2.9 million vehicles, but it represented a 101-day supply based on sales at the time. In comparison, there were 4.0 million vehicles on dealer lots as of March 31, 2019. The dealer network is clearly concerned. In January, AutoNation, the leading U.S. dealership group announced a \$50 million restructuring plan, which was immediately followed by a similar announcement from Sonic Automotive Inc, the nation's fifth-largest dealer network.



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