Automotive Industry

Hilco Perspectives

Your Single Source for Industry Updates and Asset Valuation Trends

MARCH 2011

PRIMARY RECOVERY FACTORS

- >> Overall state of the economy
- >> Credit consolidations
- >> Cost of raw materials
- >> Fuel prices

RECENT APPRAISAL & LIQUIDATION EXPERIENCE

Chrysler Group, LLC

Jaguar/Land Rover

International Automotive Components Group, N.A.

Continental Structural Plastics

Van-Rob, Inc.

Vista Pro Automotive

Anchor Manufacturing

AZ Automotive (Sodecia North America)

Getrag Corporation

Ford Motor Company

General Motors

M&E Update

Increasing Demand for Used Machinery

By John Magnuson

Overall manufacturing activity continued to expand in December for the 17th consecutive month with a Purchasing Managers Index (PMI) of 57% and strong growth in the metal fabrication and automotive industries. By 2012, capacity utilization in North America is expected to approach 86%, up from 76% at the end of 2010 and from 47% in 2009, as illustrated in the chart below.

Some suppliers are struggling to keep pace, however. In recent weeks, several vehicle assembly plants around the world were temporarily shut down or production was slowed due to part shortages. While this would seem to support the projections above, it also could derail automakers' attempts to meet rebounding demand.

To understand what this means to the values of machinery and equipment, we must first examine what occurred between late 2008 and Q4 2010. The recession resulted in many well-documented problems throughout the automotive sector. Most notably, GM and Chrysler filed for bankruptcy and suppliers were forced to slash production, shut down plants, and/or consolidate operations. The federal government injected $140.7 billion in an effort to prop up the industry.

As demand for vehicles plummeted, companies all along the supply chain shuttered hundreds of plants. When a manufacturing facility in this industry closes or downsizes, manufacturing assets of all types enter the used equipment supply chain. During the economic downturn, an unprecedented amount of equipment was introduced into the used machinery marketplace. This, coupled with a much smaller pool of buyers, resulted in a steep fall off in recovery values.

Automotive machinery and equipment (M&E) appraisals are conducted under the guidance of John Magnuson, an M&E disposition specialist with a concentration in automotive. John draws on recent liquidation data provided by Hilco Industrial, which has integrated its market information gathering and reporting systems with those of Hilco Appraisal. Since 2001, John has led many large, multi-national valuations of companies throughout the automotive sector, including GM, Chrysler, Jaguar/Land Rover, Dana, Tower Automotive, Lear, and International Automotive Components.

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M&E Update *(continued)*

The used equipment market alleviates its inventory through machinery dealers/brokers, direct sales to end-users, and public auctions and liquidations. This trend will continue into 2011, as there are already numerous auction sales scheduled for the future, in addition to the ongoing negotiated sales opportunities of complete plants, product lines, and machinery and equipment.

However, the pace of plant closures is expected to slow as the economy recovers and auto sales rebound. Suppliers that converted increased production efficiencies into cost savings and were resilient enough to survive the economic downturn have been rewarded with more business as they absorb work previously performed by their now defunct competitors. In many cases, output capacity must increase to meet the rise in orders. Adding machinery and equipment is one way to increase capacity, however, the long lead times inherent with new machinery purchases can greatly limit a company's ability to ramp up quickly enough to meet demand. As an alternative, companies are sourcing used machinery and equipment through liquidation events and various other sales channels.

The vast amount of surplus equipment that once flooded the used marketplace during the last two years has diminished greatly. Machinery and equipment that was unsalable or worth only scrap value 12 months ago is now in demand. End-user attendance and bidding activity at auction sales has increased significantly. Used machinery dealers are finding it difficult to purchase quality inventory as they try to compete with end users that aggressively are purchasing through all available means. In addition, industrial machinery shipments increased 13.6% in November 2010, while orders for new machinery increased slightly. Consequently, there has been a dramatic increase in the recovery values of select assets and asset types in recent months, including injection molding machines, stamping presses, computer numerical-controlled machine tools, and robots.

> ***"During the economic downturn, an unprecedented amount of equipment was introduced into the used machinery marketplace … Machinery and equipment that was unsaleable or worth only scrap value 12 months ago is now in demand."***

Automotive Industry Overview

With a return to profitability by the domestic OEMs, 2010 may be viewed as the turning point for the automotive industry as a whole. North American automotive sales volumes increased 15.7% from 2009 to 12.5 million vehicles on a seasonally adjusted basis. This momentum is expected to continue into 2011. Production volume estimates for Q1 2011 are anticipated to be greater than 3.2 million units, compared to 2.9 million units in Q1 2010, a 12.5% increase. Vehicle sales in January increased 17% from one year earlier to 819,938 units. Among the top seven automakers, retail sales rose 28%. The overall seasonally adjusted annual rate (SAAR) for 2011 is 12.6 million.

Further, global light-vehicle sales are expected to increase 6% this year to a record 76.5 million units. This recovery is being driven by real, natural demand by consumers who are buying new vehicles because they want to, rather than out of necessity. The National Automobile Dealers Association (NADA) has identified five factors that currently affect new vehicle sales:

1. **More choices.** There were more than 700 vehicles (including the debut of 40 new cars and trucks) on display at the North American International Auto Show in Detroit.
2. **Credit availability.** Interest rates are low and likely will remain that way for an extended period of time.
3. **Tax policy.** The extension of federal tax cuts should promote investment and economic growth.
4. **Stock market performance.** Sales of luxury vehicles are strong and reflect movements in the stock market.
5. **Gas prices.** Higher gas prices increase demand for small cars, hybrid vehicles, and diesels.

Globally, there is a renewed interest in the automotive industry, brought on by a stabilizing economy and a positive outlook for the future. Mergers and acquisitions should play a significant role in solidifying competitive positions and driving corporate growth in the sector. There seems to a convergence around smaller, strategic deals, indicating that buyers are following a strategy where smaller businesses are targeted to add specific capabilities, technologies, or geographies to an existing business platform. Ultimately, mergers and acquisitions will be a key component utilized by many OEMs and suppliers to minimize exposure and carry out strategic growth initiatives.

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Inventory Update

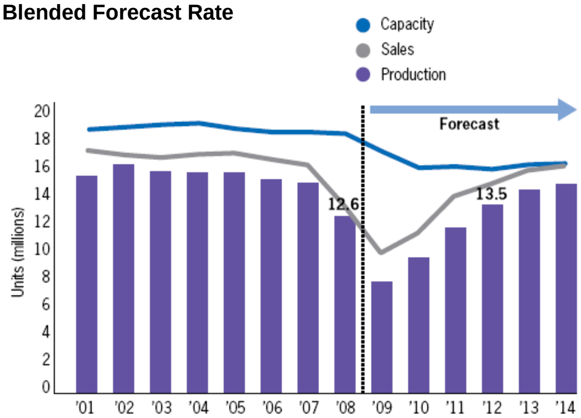
Growing Enthusiasm in a Recovering Market

By Keith Spacapan

This time last year, disappointing sales had dampened industry enthusiasm; however, with the help of year-end discounts and new model introductions, the automakers finished 2010 on a high note. After a disappointing start, 2010 light-vehicle sales totaled 11.6 million units, up 11% from a 27-year low in 2009. Going forward, dealers should be optimistic; in 2010, the industry saw its first annual sales gain since 2005; Ford and GM unveiled plans to invest in their North American manufacturing plants; and the price ratio of used to new vehicles rose to 55% for 3-year-old cars, the highest ratio since at least January 2006, and could rise to as high as 60% before year's end.

While dealers are optimistic, most analysts warn that until there is a recovery in the housing market and employment, the annual growth rate will remain approximately 10%.

Light Vehicle Outlook
Blended Forecast Rate



Source: Grant Thornton LLP, J.D. Power and Associates and CSM Worldwide

Tempering some of the dealers' enthusiasm is their frustration born of an inability to get the vehicles they want. Automakers are having trouble ramping up to meet surging desire for vehicles and have been hurt by shortages of key parts. Many suppliers that drastically cut capacity during the economic downturn either are unable to increase capacity quickly enough or are gun-shy about adding equipment and workers amid the fragile recovery, industry observers say. The industry's 55-day supply of unsold light vehicles at the end of 2010 was virtually flat from the 53-day supply at the end of 2009. Some analysts are concerned that the industry might return to the days when automakers overbuilt and then had to incentivize customers to buy. Retail customers were bribed with ever-increasing incentives, and fleet customers with volume discounts. In the end, the incentives undermined the industry's profitability, and volume discounts suppressed residual values. In January, GM increased per-vehicle incentives to $3,650 and sales responded. By the second week of February, Honda, Nissan, and Hyundai followed. For now, the lack of product should avert a price war.

Although the North American and European markets continue to languish, worldwide sales of light-duty vehicles reached an all-time high of 72 million units in 2010 due to the success of emerging markets. Emerging markets now account for more than half of the world's light vehicle sales. In many respects, the risks associated with domestic issues (i.e. incentives, fleet sales, etc.) pale in comparison to the potential impact from global demand on the price of oil and other commodities.

UPCOMING LIQUIDATIONS

Motors Liquidation Company (f/k/a GM)

Old Carco LLC (f/k/a Chrysler)

Ford Motor Company

Automotive Components Holdings

Magna Powertrain

As vice president of Hilco's automotive inventory practice, Keith is responsible for overseeing Hilco's appraisals of original equipment manufacturers (OEM)s, Tier 1 suppliers, and aftermarket manufacturers and distributors. Keith has more than 20 years of direct involvement in the automotive industry, including 15 years with GM as finance director and product line executive. He also served as chief executive of a manufacturer and distributor of automotive aftermarket parts.

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