

# GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

**Auto Parts/Oil and Gas Monitor  
November 2011 - Volume 4**

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### Introduction

Welcome to the fourth issue of the *Auto Parts/Oil and Gas Monitor* from Great American Group Advisory & Valuation Services (“GA”). This publication will provide you with market value and industry trends for a variety of products within the automotive and oil and gas sectors. The enclosed information represents a composite of GA’s industry expertise, well-respected industry publications, liquidation and appraisal experience, and contact with industry personnel. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole.

The *Auto Parts/Oil and Gas Monitor* relates information covering most major product categories within these sectors, including industry trends, market pricing, and their relation to our valuation process.

GA provides our customer base with a concise document highlighting the automotive and oil and gas sectors. Please feel free to utilize our contact information shown in this and all *Auto Parts/Oil and Gas Monitor* issues. GA welcomes the opportunity to make our expertise available to you in every possible way.

### Trends in Recovery Values

In general, recovery values in the third quarter of 2011 have been mixed for auto parts manufacturers as compared to the third quarter of 2010. For companies that cannot pass on increased costs, values have been driven down by falling gross margins; however, many manufacturers have improved inventory mix, positively impacting values.

Trend Tracker	
AUTOMOTIVE	OIL/FUEL
NOLVs: Mixed	NOLVs: Consistent or Decreasing
Sales Trends: Consistent or Increasing	Sales Trends: Consistent
Gross Margin: Mixed	Gross Margin: Decreasing
Inventory: Increasing	Inventory: Consistent
Pricing: Increasing	Pricing: Consistent or Decreasing

Recovery values for lubricants in the third quarter of 2011 ranged from flat to down three points as compared to the same period in 2010. Liquidation values have been tied to gross margin and the spread between cost and market price.

GA internally tracks recovery ranges for parts, lubricants, and gasoline, but we are mindful to adhere to your request for a simple reference document. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.



## ABOUT GREAT AMERICAN GROUP

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Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale, and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. In addition to the *Auto Parts/Oil and Gas Monitor*, GA also provides clients with industry expertise in the form of monitors for the chemical, metals, food, and building products sectors, among many others.

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## EXPERIENCE

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GA has worked with and appraised numerous companies within the automotive and oil and gas industries. While our clients remain confidential, they include companies throughout the automotive supply chain including manufacturers, importers, distributors, and retailers of aftermarket, performance, replacement, and OEM parts and accessories. Our oil and gas industry clients include operators of refineries, distributors of lubricants and oil, and specialty lubricants manufacturers.

GA's extensive list of appraisal experience includes:

- Exclusive distributor of Detroit Diesel and Allison engine, transmission, cores, and related parts for industrial and commercial vehicles and equipment, with 20 major distribution locations.
- Performance parts manufacturers and distributors of engine, fuel, electrical, and exhaust components for muscle cars and recent-model high-performance cars.
- OEM parts suppliers to the “big three” U.S. automakers including manufacturers of transmission, interior, wheel, and accessory products.
- Distributors of passenger car and light truck tires, both replacement and high-performance tire distributors, ranging in size from a single location to over \$150 million in inventory and \$600 million in sales.
- Operators of multiple refineries and producers of specialty lubricants with over \$150 million in inventory and \$2 billion in annual sales.
- A franchised dealer of Freightliner trucks and trailers, as well as related aftermarket parts.
- Local distributors of fuel and lubricants servicing quick-change oil locations, garages, construction, agriculture, and trucking companies ranging in size from a single location to companies operating five to seven major subsidiaries across the United States.
- Companies engaged in the distribution, as well as transportation and storage, of commodity lubricants and fuel.
- A producer and recycler of lead acid batteries used in transportation, power, and network applications.

GA has also liquidated a number of manufacturers and distributors of OEM and aftermarket parts, including Midas Corporation, Trak Auto, Smittybilt Outland Automotive Group, Inc., and American Products Company, Inc. In addition to our vast liquidation and appraisal experience, GA maintains contacts within the automotive industry that we utilize for insight and perspective on recovery values.

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# OVERVIEW

## NEW CAR SALES

Following a strong spring and a fairly stagnant summer, auto sales in the third quarter of 2011 proved that the auto industry continues to improve from recession-era sales declines.

In August, auto sales faced a new set of challenges. The economic crisis in Europe expanded, the east coast of the U.S. was tracked by a hurricane, politicians agreed to raise the debt ceiling after weeks of debate, the U.S. credit rating was downgraded to AA+ by Standard and Poor's, and the industry continued to be held in check by supply constraints from Japan, particularly for in-demand small cars.

Despite all these factors, year over year sales improved in both August and September. In October, new car sales totaled 1.02 million units, which represents a 7% increase from October 2010, as well as a Seasonally Adjusted Annual Rate ("SAAR") of 13.2 million units.

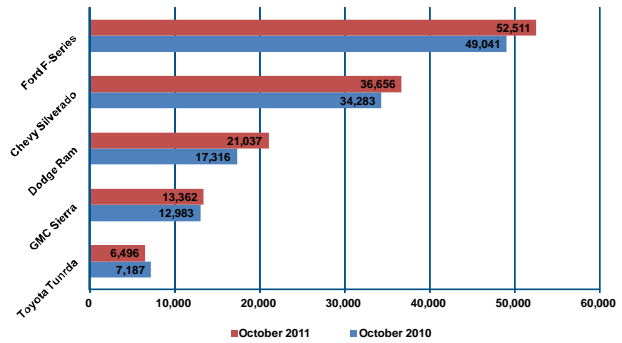
On an individual level, the best performers in October were Chrysler and Hyundai. Chrysler's sales improved 27% over 2010 levels, driven by new products, improved marketing, and growing popularity of existing models. Hyundai's sales increased 22%, driven largely by an improvement in supply.

## MIXED PURCHASING TRENDS

Industry experts have been fairly optimistic regarding recent automotive sales trends. Despite trying economic conditions, as well as international turmoil and difficult weather, auto sales have proved to be remarkable resilient.

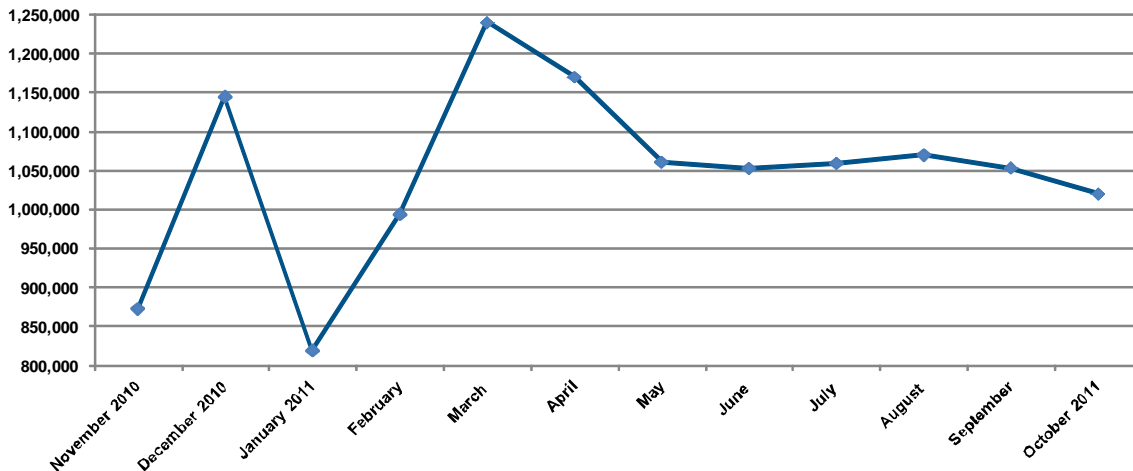
Sales continue to improve over 2010 levels, while at the same time, Japanese supply is beginning to normalize as the country recovers from the earlier earthquake and tsunami.

**Full-Size Pickup Sales**  
October 2011 vs 2010



Consumer purchasing trends finally began to stray from small vehicles, where they've been focused for more than a year. Although the small segment remained very strong, consumers increased purchases of SUVs and full-size pickups. Experts believe the trend toward certain larger vehicles is likely a result of falling fuel prices, as both gasoline and diesel prices in October were at their lowest levels since February, as well as the impending winter months.

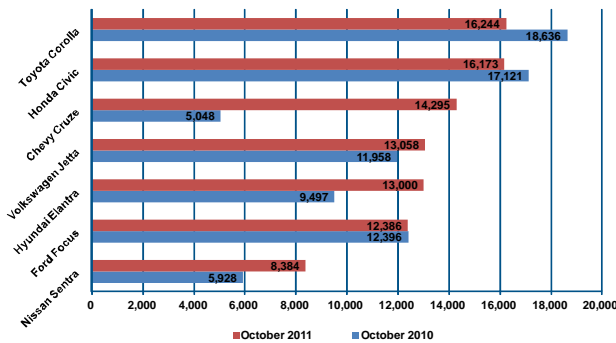
**U.S. Auto Sales**  
November 2010 through October 2011  
(in Units Sold)



# OVERVIEW

A notable occurrence in the compact segment was the resurgence of Japanese brands. As Toyota and Honda bring their manufacturing operations online, sales of related models are expected to continue to improve. According to *Edmunds*, the Toyota Corolla and Honda Civic were the best sellers in October's compact segment.

**Compact Auto Sales  
October 2011 vs 2010**



## AFTERMARKET PARTS

The number of miles driven by Americans is a key indicator of the overall state of the aftermarket industry, as an increase in miles driven indicates increased need for maintenance and parts. According to the latest Traffic Volume Trends report by the U.S. Department of Transportation (“DOT”) and the Federal Highway Administration, miles driven in August 2011 decreased 1.7%, or 4.6 billion vehicle miles, from August 2010. The DOT estimates that miles driven for the month totaled 263.0 billion miles. Consistent with previous months, the decrease is attributed to higher fuel prices.



## COMMODITIES IMPACT COSTS

As mentioned in previous editions, commodity prices skyrocketed in the spring of 2011. Key components utilized in the production of automobiles and automotive parts - including crude oil, plastics, and metals - exhibited drastic cost increases. Although prices began to fall in the second half of the year, many of these decreases have yet to be passed downstream in any meaningful form. As a result, manufacturers continue to battle high acquisition costs.

## TIRES

The Rubber Manufacturers Association (“RMA”) predicts tire shipments will be up 2% through year-end 2011, reaching 290 million units. The association predicts that economic uncertainty will restrain growth and reduce demand for tire shipments. At the same time, increased auto production will positively impact the industry.

Performance has been mixed amongst leading U.S. tire manufacturers. In October, Cooper Tire & Rubber Company reported record third quarter results, with sales increasing 19% to exceed \$1 billion. At the same time, profits decreased; despite higher prices, the company was unable to match skyrocketing raw material costs.

The Goodyear Tire & Rubber Co. reported similar results, achieving its highest quarterly revenues ever in the third quarter of 2011, despite relatively flat volume sales. The company attributed the 18% increase in North American revenue to improved pricing strategies and a better mix of products.

Going forward, tire manufacturers may be further impacted by the global rubber shortage, with many experts predicting that natural rubber yields in Thailand, Indonesia, and India will not meet demand. As mentioned above, many manufacturers have increased prices, and will likely continue to do so as costs climb steadily higher.

# RECENT APPRAISAL TRENDS

## ORIGINAL EQUIPMENT MANUFACTURER PARTS

In recent months, sales trends for manufacturers of original equipment manufacturer (“OEM”) parts have remained relatively flat as compared to the previous year, as automotive production levels have slowed from the levels witnessed earlier in 2011. Raw material inventories are fairly high, as production levels for most of 2011 have been higher than in 2010. As finished goods tend to ship upon completion, GA has not witnessed significant fluctuations in finished good inventories.



As production decreases, companies must diligently monitor slow-moving inventory levels, as increases have a negative impact on recovery values during a liquidation.

In general, gross margins have decreased in recent months as manufacturers are feeling the impact of higher acquisition costs, the result of commodity material price increases earlier in the year. This trend is somewhat mitigated by manufacturers’ ability to pass cost fluctuations along to customers.

Consistent with previous months, finished goods continue to maintain high recovery values, as these goods are typically made to order. Recovery values in the third quarter of 2011 have been mixed as compared to the previous quarter, as have year-over-year values. Values have been negatively impacted by rising material costs and lower margins, which has been offset by the increases in production volumes, which have a positive impact on efficiencies.

## AFTERMARKET ACCESSORIES

Aftermarket accessories are typically used to improve or modify the appearance or performance of vehicles. Aftermarket accessories tend to be discretionary or luxury in nature. As a result, sales of aftermarket accessories can be significantly impacted by prevailing consumer confidence.



Throughout 2011, sales have remained relatively flat. Aftermarket accessories tend to be discretionary in nature. Volatile economic conditions have prevented consumers from spending money on unnecessary products. Gross margins have been mixed to down in this segment. As witnessed in other areas of the market, a company’s ability to maintain its gross margin is based upon how well it passes costs along to customers in the form of price increases. Some companies have been able to successfully raise prices to combat rising acquisition costs and improve gross margin slightly.

Inventory levels have started to increase slightly in the third quarter of 2011 versus 2010 due to improving market conditions, as well as a focus on reducing slow-moving inventory levels.

Recovery values in the aftermarket accessories segment for the second quarter of 2011 have been mixed as compared to the second quarter of 2010, with values increasing or decreasing one to two points. Values have been positively impacted by improved inventory mix, but have been negatively impacted by falling gross margins.

# RECENT APPRAISAL TRENDS

## AFTERMARKET REPLACEMENT PARTS

As mentioned in previous monitors, the consumer trend toward maintaining a vehicle for a longer period of time has positively impacted demand for aftermarket replacement parts. Sales have increased, year-over-year, driven by this trend of long-term maintenance and repair. Increased demand has resulted in higher inventory levels.

Recovery values for aftermarket replacement parts in the third quarter of 2011 have increased one to five points as compared to 2010. Increases have been driven by improvements in sales and the inventory mix.



## LUBRICANTS

Manufacturers and distributors of lubricants sell products to mechanics and auto service centers, trucking fleets, and industrial/manufacturing companies. Consistent with previous monitors, dollar sales increased for lubricant manufacturers, driven by higher prices. Volume sales have remained consistent or increased slightly; as a result, inventory levels have also remained fairly consistent.



Lubricant pricing is intertwined with the cost of crude oil. To stay profitable, lubricant manufacturers must adjust their prices based on input costs. Industry participants tend to adjust their prices as often as necessary to maintain margins and keep prices in line with costs. Despite manufacturers' ability to pass prices on to customers, lags in pricing adjustments often result in short-term impacts on gross margins. In recent months, gross margins have decreased. In coming months, as commodity prices continue to fall, gross margins should improve.

As lubricants are commodity products that can be utilized by a wide range of manufacturers, they tend to achieve high recovery values during an Orderly Liquidation Sale. Liquidation values in the third quarter of 2011 ranged from flat to down three points as compared to the same period in 2010. As compared to the second quarter of 2011, however, liquidation values have been consistent or increased slightly due to falling costs. Liquidation values have been tied to gross margin and the spread between cost and market price.

# MONITORING POINTS

Monitoring Point	Impact
Monitor levels of slow-moving and aged inventory.	As many companies have boosted inventory levels to align with rebounding demand, they may experience increased levels of lower-recovery slow-moving and aged inventory should sales fail to meet their projections. Slow-moving and aged goods are more difficult to sell through during a liquidation and frequently are sold for scrap value at a loss.
Monitor company relationships with OEMs.	The majority of finished goods supplied to OEMs are custom and manufactured according to anticipated production runs. Should these customers cancel their orders or transition to a new vendor, the companies may retain a large quantity of unsaleable inventory, which would negatively impact recovery values.
Monitor oil and fuel prices versus their cost basis.	Oil and fuel prices impact consumer habits regarding vehicle purchases and maintenance. In addition, oil and fuel are critical raw materials utilized in the production of many automotive parts. Should oil and fuel prices increase dramatically, sales within the automotive industry would decrease, as well as gross margins.
Steel and other commodity metal prices.	As steel and other commodity metal prices have fluctuated recently, acquisition costs for many manufacturers have increased, which has an impact on gross margin. Monitor a company's ability to pass increased costs along to customers.
Consumer buying habits and driving trends.	Consumer sentiments have a significant impact on the sale of many automotive aftermarket parts, as do driving trends. Consumers spending and miles driven are typically related to economic conditions, which may impact a company's sales and profitability.



# PRICING TRENDS

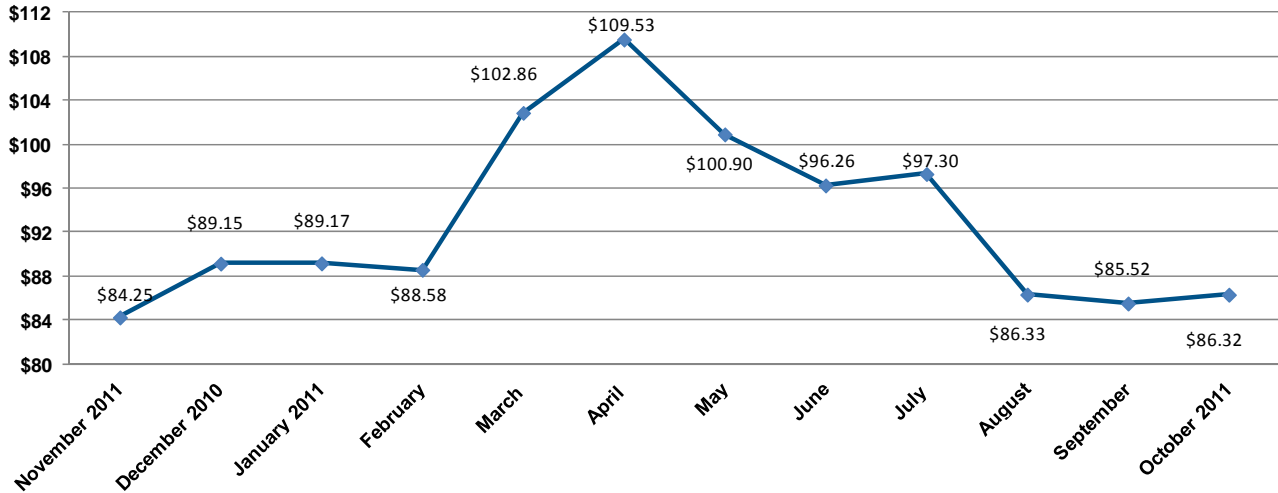
## CRUDE OIL

Since peaking at \$109.53 per barrel in April 2011, West Texas Intermediate (“WTI”) crude oil spot prices have described a downward trend. According to data from the Energy Information Administration (“EIA”), West Texas Intermediate crude oil prices fell to below \$100 per barrel in June and July, before falling to the \$85 dollar range in August, September, and October. In the first week of November, spot prices climbed into the mid-\$90 range.

According to the EIA, supply uncertainty, related to political instability in oil-producing regions, puts upward pressure on oil prices. At the same time, economic conditions and fears regarding the European debt crisis have overpowered supply concerns.

The EIA recently downgraded its estimates of global oil consumption in 2011. In addition, supplies are higher than originally expected. As a result, these two trends have served to relieve some of the market dynamics that led to such high prices. However, the EIA believes that demand levels in both 2011 and 2012 will still require some use of existing inventories.

**Crude Oil  
Cushing, OK WTI Spot Price  
November 2010 through October 2011  
\$ per Barrel**



# PRICING TRENDS

## GASOLINE AND DIESEL

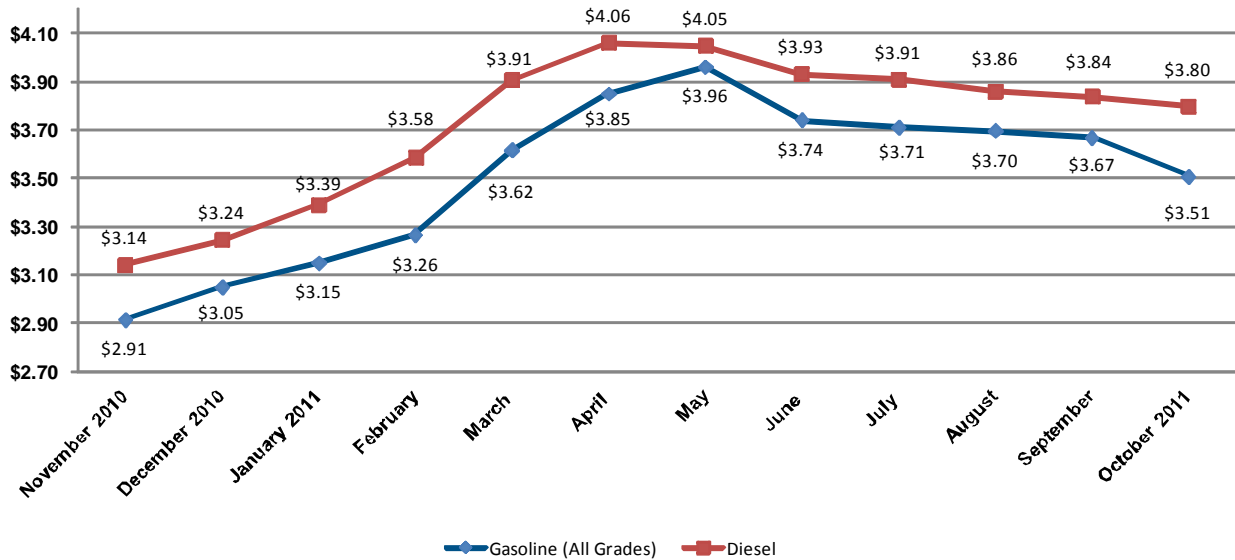
Following extreme volatility in the first half of the year, gasoline and diesel prices appear to have fallen into a period of relative stability. Prices peaked in the spring, with diesel climbing to \$4.06 per gallon and gasoline reaching \$3.96 per gallon.

Since peaking, prices have slowly, but steadily, declined. In October, average diesel and gasoline prices fell to the lowest point since February, averaging \$3.80 per gallon for diesel and \$3.51 per gallon for gasoline. Despite the slow decline, prices remain above historical levels, with diesel and gasoline prices \$0.75 and \$0.65 more per gallon, as compared to October 2010.

In its short-term energy outlook, the EIA predicts that regular grade gasoline will average \$3.52 per gallon for full-year 2011, an increase from \$2.78 per gallon in 2010, but a decrease from recent estimates. The EIA predicts that on-highway diesel fuel will average \$3.80 per gallon for full-year 2011, an increase from \$2.99 per gallon in 2010.



**Gasoline and Diesel Prices**  
**November 2010 through October 2011**  
**\$ per Gallon**



# OIL AND GASOLINE REFERENCE SHEET

## U.S. crude oil pricing trends

Crude Oil (dollars per barrel)	Q4 2010	Q1 2011	Q2 2011	Q3 2011
West Texas Intermediate Spot Average	\$85.10	\$93.50	\$102.22	\$89.72
Imported Average	\$81.03	\$94.23	\$108.72	\$100.11
Refiner Average Acquisition Cost	\$81.69	\$93.98	\$108.13	\$98.98

## Gasoline pricing trends

Retail Prices (including taxes, dollars per gallon)	Q4 2010	Q1 2011	Q2 2011	Q3 2011
Gasoline Regular Grade (average self-service cash price)	\$2.88	\$3.29	\$3.80	\$3.63
Gasoline All Grades (average self-service cash price)	\$2.94	\$3.35	\$3.85	\$3.69
On-Highway Diesel Fuel	\$3.15	\$3.63	\$4.01	\$3.87

