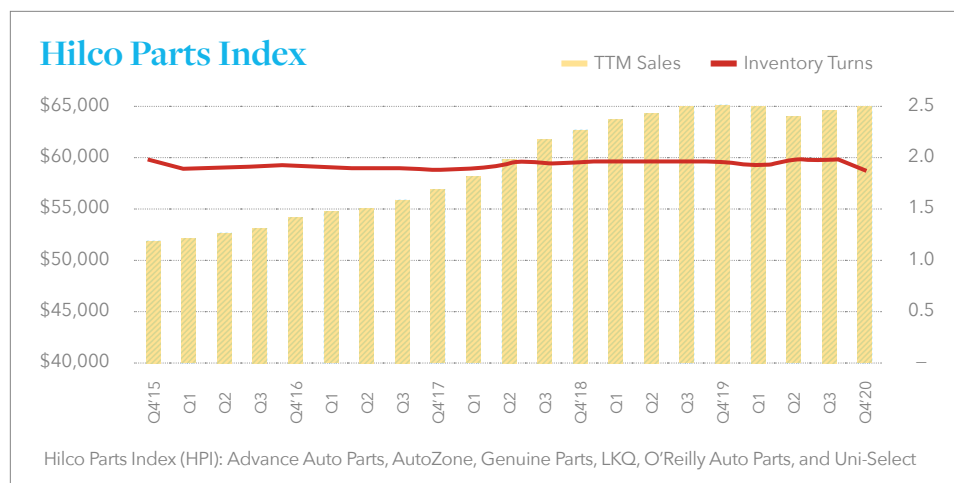


SMARTER PERSPECTIVE: AUTOMOTIVE PARTS INDUSTRY 2020 Will be Remembered as the Most Challenging Year Ever

By Keith Spacapan

March 1, 2021—For anyone in the auto industry right now, the year 2020 will be remembered as the most challenging of their career. The pandemic spared no one. Manufacturers, freight companies, distributors, wholesalers, retailers, and customers all had their own cross to bear. In the end, 2020 net sales for the Hilco Parts Index (HPI) declined 1.1% compared to prior year results. That is considerably better than the 8.8% decrease suffered by the broader U.S. auto aftermarket and evidence the Big Four (Advance, AutoZone, Genuine Parts, and O'Reilly) continue to gain market share from smaller independent wholesale distributors. The Big Four are generally considered to represent a third of the marketplace.

Since the plunge in the second quarter, net sales for the HPI have improved sequentially each quarter. Net sales for the HPI were \$64.4 billion in the fourth quarter of 2020, an improvement of 0.6% from the fourth quarter of 2019. The Do-it-Yourself (DIY) segment continued to outperform the Do-it-for-Me (DIFM) segment of the market. DIY sales benefited from the additional time and money (stimulus checks) available to work on cars while the DIFM market has proven more dependent on miles driven. According to the U.S. Federal Highway Administration, Americans only drove 166 million miles in April 2020, the lowest monthly total in over 25 years. By December, miles driven had recovered



to 244 million miles, a decrease of 10.3% from December 2019.

While the DIY segment has fared okay in the short term, the longer term outlook for the DIY segment, like the DIFM segment, will depend on the continued recovery of miles driven. There is some concern that not everyone will be willing to give up the freedom of working from home to sit in traffic on a daily basis. On the other hand, for those that do return to the office, will it be easier to practice newly learned social distancing practices in a personal vehicle as opposed to public transportation. In addition, many companies have learned that some of the traveling being done pre-COVID was not the best use of resources. Miles driven will eventually recover to pre-COVID levels but probably not before 2022.

About the Index: The Hilco Parts Index is comprised of six publicly traded companies that distribute aftermarket parts, namely Advance Auto Parts (Advance), AutoZone, Genuine Parts (NAPA), LKQ, O'Reilly Auto Parts (O'Reilly), and Uni-Select. Advance, AutoZone, NAPA, and O'Reilly are the four traditional parts distributors in North America with strong commercial (do-it-for-me or DIFM) and retail (do-it-yourself or DIY) programs. Uni-Select is a much smaller distributor with a strong presence in Canada and LKQ is largely a distributor of recycled (used) parts, as opposed to new parts.

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| Sales | Gross Margin | Net Margin | Inventory | Inventory Turns |
|-----------|--------------|------------|-----------|-----------------|
| \$64,809 | 43.7% | 7.2% | \$19,110 | 1.9 |
| +0.6% QOQ | +21 bp QOQ | +61 bp QOQ | +3.9% QOQ | -0.1 QOQ |
| -1.1% YOY | +122 bp YOY | +9 bp YOY | -1.8% YOY | No Change YOY |