



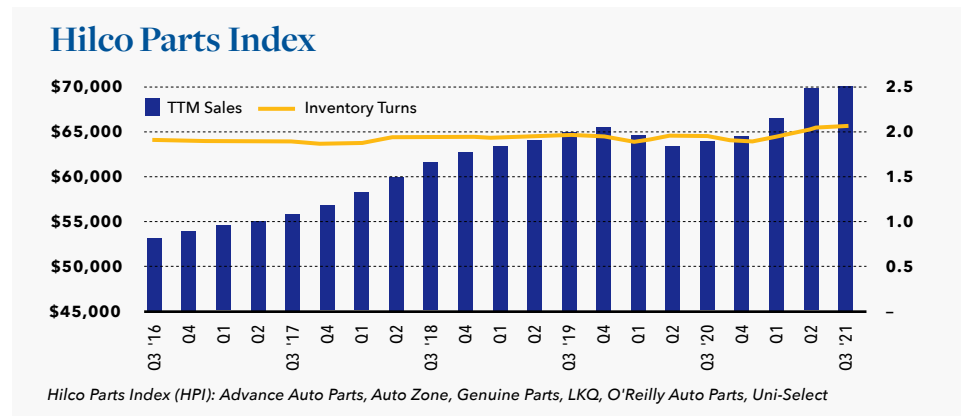
SMARTER PERSPECTIVE: AUTOMOTIVE AFTERMARKET

# Does the Same Fate Await Aftermarket Parts that Beset New Car Sales?

By Keith Spacapan

**January 3, 2022** For the six companies that comprise the Hilco Parts Index (the Index), net sales were \$71.2 billion for the 12 months ending with the third quarter of 2021. Compared with the same period in the prior year, sales increased 11.4% on a nominal basis. For those stores open at least 12 months, organic sales were up mid-single digits for the quarter. Sales demand was also strong over each of the three periods of the quarter across all regions of the country, for both retail and commercial sales channels.

This time last year, quarterly financial results were so much stronger than expected that the prospect of a positive comp one year later did not seem likely. With the last round of significant government stimulus occurring in March 2021, sales were widely expected to step down this past summer. Instead, this is the third quarter in a row during which the industry has reported strong financial results and it seems that with every passing month since that last stimulus check, industry confidence in the recovery has continued to grow. At present, there is no sign that consumers are deferring maintenance such as oil changes beyond normal cycles. The ongoing reopening of the economy is resulting in more miles driven which, in turn, generates a need for more repairs and more maintenance. The general shortage of new and used vehicles is also providing consumers with another reason to maintain the vehicles they already have.



Looking forward, the fourth quarter is historically volatile due to winter weather and the holiday shopping season. This year adds to that 1) the continuing pandemic, 2) the rising cost of goods and services overall, and 3) higher prices at the gas pump, specifically. Like the new car industry, the aftermarket parts industry has struggled to maintain sufficient inventory levels in the face of various supply chain challenges. Unlike the new car industry, however, the aftermarket parts industry carries at least twice the inventory in terms of days on hand. New car sales were strong through May when the lack of inventory took hold. So the question becomes... is the ongoing strength of the aftermarket parts market attributable only to the fact that it carries more inventory? And, if so, does the same fate await aftermarket parts that has beset new car sales? Up until now, the industry has managed by substituting different brands, but the longer this

situation continues the tougher it becomes to mitigate.

**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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TTM Sales	Gross Margin	Net Margin	Inventory	Inventory Turns
\$71,215	44.2%	9.4%	\$19,248	2.1
+2.1% QOQ +11.4% YOY	+8 bps QOQ +62 bps YOY	+9 bps QOQ +279 bps YOY	+0.4% QOQ +4.6% YOY	+0.1 turns QOQ +0.1 turns YOY