

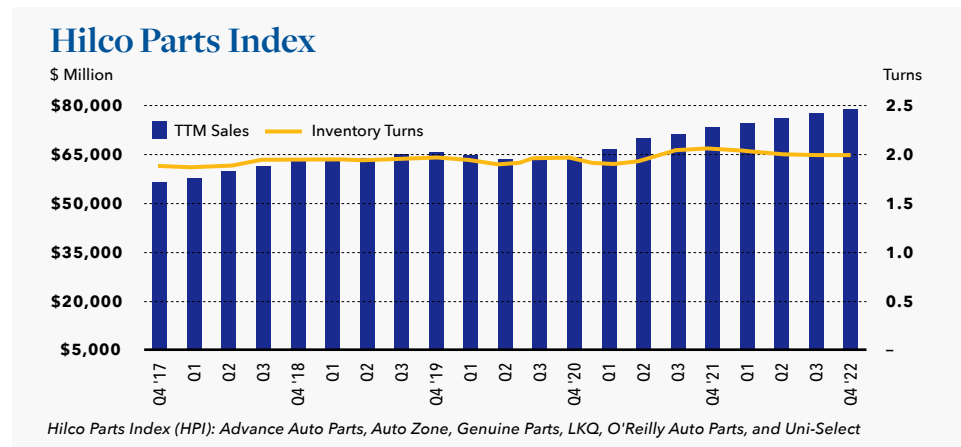
SMARTER PERSPECTIVE:  
AUTOMOTIVE AFTERMARKET

# LKQ May Be the Company to Watch

By Keith Spacapan

**April 5, 2023** Advance Auto Parts (Advance), the last of six companies in the Hilco Parts Index (HPI) to report results for the fourth quarter of 2022, fell short of expectations after a challenging 2022, according to Advance president Tom Greco. Advance is in the last year of executing on a three-year strategic plan that should soon start paying dividends in terms of additional revenue. In contrast, leadership at the other five companies in the HPI each reported increases in same-store sales of 5% to 10% for the year.

For all six companies in the index, combined net sales were \$78.8 billion for the 12 months ended December 2022, an increase of 7.8% when compared to the prior year. The increase in sales was not enough to offset the adverse impact from inflation on gross margins. Pandemic-level margins, however, will always be a tough comparison, as during that period, gross margins benefited from surges in profitable retail sales to do-it-yourself customers and high-margin premium product offerings driven by scarce inventory resulting from supply chain constraints. Consumers have since adjusted and the aftermarket industry has been able to rebuild its inventory to pre-pandemic levels. In fact, those levels at year-end 2022 were 12.6% higher than 2021, while fill rates have continued to edge closer to pre-pandemic levels. In the end, average gross margins for the 12 months ended



December 2022 deteriorated by 59 basis points from the prior year.

It is not clear how much longer Uni-Select will be reported as a separate component of the HPI. On February 27, 2023, LKQ announced it had agreed to acquire all of Uni-Select's issued and outstanding shares. Uni-Select is a leading distributor of automotive refinish and industrial coatings in North America through its FinishMaster segment, which would complement LKQ's existing product offerings in the collision parts space. This step follows LKQ's recent acquisition of Green Bean Battery, a reconditioner and installer of hybrid batteries. It appears that LKQ may be on the verge of carving out a unique space in the newly electrified landscape where batteries are the most expensive components. LKQ is the non-traditional

component of the HPI and may, in fact, be the company to watch.

**About the Index:** The HPI comprises 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 AAP, AutoZone, NAPA, and O'Reilly are the four traditional parts distributors in North America with strong commercial (do-it-for-me) and retail (do-it-yourself) programs. Uni-Select is a much smaller distributor with a strong presence in Canada, and LKQ largely distributes recycled (used) parts, as opposed to new parts.

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TTM Sales	Gross Margin	Net Margin	Inventory	Inventory Turns
\$78,754	43.7%	9.5%	\$22,467	2.0
+1.7% QOQ +7.8% YOY	-16 bps QOQ -59 bps YOY	-19 bps QOQ -15 bps YOY	+2.0% QOQ +12.6% YOY	No Change QOQ No Change YOY