

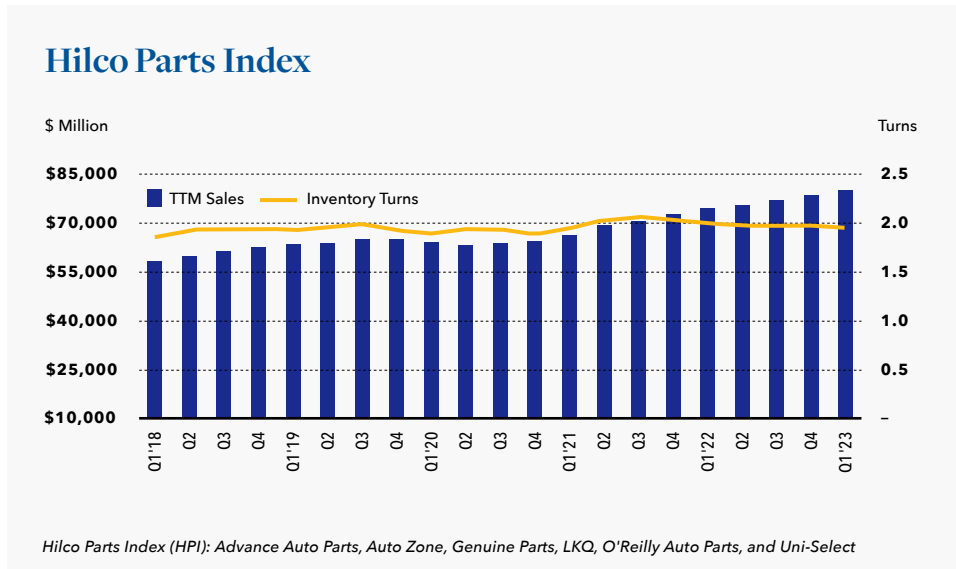
SMARTER PERSPECTIVE:  
AUTOMOTIVE AFTERMARKET

# It's all about Ticket Counts and Average Tickets

By Keith Spacapan

**June 26, 2023** First quarter results can be the most unpredictable for the Automotive Aftermarket due to the volatility of the weather. The industry generally prefers the heavy wear & tear that comes with harsh winter weather and the opportunity that follows for repairs when spring comes early. After a couple of relatively mild years, this past winter was more typical, punctuated by heavy snowfall in the West. Spring arrived on time but was too wet for the normal influx of do-it-yourself customers waiting for the first warm day to complete jobs put on hold over the winter. As a result, the quarter started out slower than expected. Despite that, the six companies (The Companies) in the Hilco Parts Index believe the bad weather and deferred maintenance will pay dividends over the balance of the year.

In the interim, the industry has been busy rebuilding its depleted inventories. A year ago, inventory fill rates were in the low 80s and there was no sign of relief from the tangle of supply chain issues. Those supply chain issues are



now limited to specific product lines and inventory fill rates are in the high 80s, with more room for improvement. For perspective, world-class fill rates would be somewhere in the lower 90s.

Net sales for The Companies in the Hilco Parts Index were \$80.0 billion for the 12 months ending March 2023, an

increase of 7.0% when compared to the prior year. Most of The Companies in the Index reported same store sales up mid-single digits to high-single digits when compared to the first quarter of 2022. Same store sales at Advance Auto Parts (AAP) were down 0.4% and the outlook for the balance of the year does not reflect any improvement. It is unfortunate

<p><b>TTM Sales</b> \$80,042 +1.6% QOQ +7.0% YOY</p>	<p><b>Gross Margin</b> 43.6% -8 bps QOQ -55 bps YOY</p>	<p><b>Net Margin</b> 9.4% -14 bps QOQ -21 bps YOY</p>	<p><b>Inventory</b> \$23,043 +2.6% QOQ +10.8% YOY</p>	<p><b>Inventory Turns</b> 2.0 No Change QOQ No Change YOY</p>	<p><b>Sales Q1 Only</b> \$20,380 +7.0% QOQ +6.7% YOY</p>
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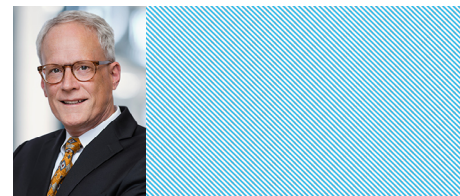
for AAP that rising inflation struck at the very time the company implemented a strategic pricing initiative to grow its commercial business. AAP's sales have been weak while others have performed at least as well as inflation, and AAP's gross margins have suffered while others have grown.

With the pandemic seemingly behind us and the related supply chain challenges manageable, the latest earnings calls are back to talking about ticket counts and the average ticket price. All-in-all, ticket counts in the first quarter of 2023 are down about 2% from the first

quarter of 2022, while the price of the average ticket has increased mid-single digits. It is not surprising that ticket counts continue to decline as vehicle technology continues to improve and that the average ticket is now merely increasing in line with general inflation. The Companies appear to be satisfied that monetary policies to fight general inflation are working while annual wage inflation is persistently in the 3%-5% range. With U.S. unemployment rates near historic lows, U.S. labor participation rates in line with historic trends, and an aging population, wage inflation may prove harder to deal with than general inflation. Thus far, the industry has been slow to adopt artificial intelligence and robotics, but as the cost of labor increases, the business cases for alternatives improve.

**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-for-me or DIFM) 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.*



**KEITH SPACAPAN IS VICE PRESIDENT AT HILCO VALUATION SERVICES**

For further information, please contact Keith at [kspacapan@hilcoglobal.com](mailto:kspacapan@hilcoglobal.com) or 847-313-4722.