

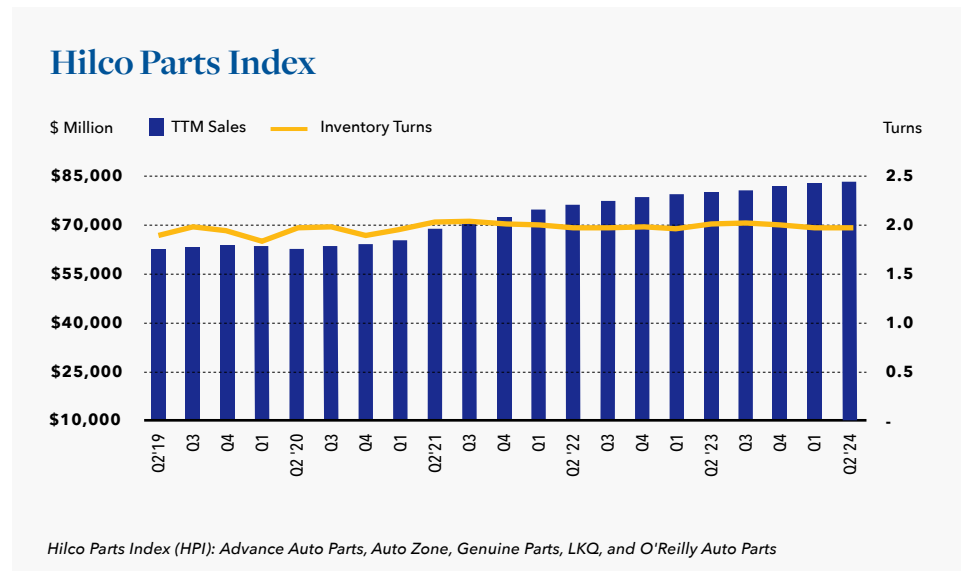
SMARTER PERSPECTIVE:
AUTOMOTIVE AFTERMARKET

Sales of Aftermarket Replacement Parts Were Flat

By Keith Spacapan

September 30, 2024 - For the five companies that comprise the Hilco Parts Index (HPI or the Index), net sales were \$83.2 billion for the trailing twelve months (TTM) ending with the second quarter of 2024. On a nominal basis, net sales for the period were up 3.1% compared to the trailing 12 months ending with the second quarter of 2023. For stores that have been open for a minimum of 12 months, referred to as "same store sales" or "organic sales", only O'Reilly Auto Parts was able to report sales growth in excess of one percentage point. For the other four companies in the Index, organic sales were "flat," just like the state of the domestic market for aftermarket replacement parts.

Although organic sales were flat, they generally represented a sequential improvement from the first quarter due in part to the timing of the weather. Sales of aftermarket replacement parts can be difficult to forecast because of the volatility of the weather. Historically, extreme weather, hot or cold, promotes part failures and accelerates vehicle



maintenance. In severe cold winter weather, under-car parts like tie rods break, windshield wipers shred, and batteries die. Batteries do not like severe heat either, nor do underhood parts like belts and hoses. After two mild winters in a row, the industry welcomed the more normal cold and snowy weather that characterized this past winter. However,

this year, more of the benefit from the severe cold weather was deferred to the second quarter than normal because the late arrival of spring meant the "do-it-yourself" customer had to wait until April to set up shop in their driveway. In addition, tax refunds that typically begin around Valentine's Day and last for six weeks were late this year, spilling over to

TTM Sales \$83,172 +0.8% QOQ +3.1% YOY	Gross Margin 43.8% - 5 bps QOQ +4 bps YOY	Net Margin 8.3% - 29 bps QOQ - 80 bps YOY	Inventory \$24,015 + 2.4% QOQ + 6.3% YOY	Inventory Turns 1.9 - 0.1 QOQ - 0.1 YOY	Sales Q2 Only \$20,864 + 0.7% QOQ + 3.2% YOY
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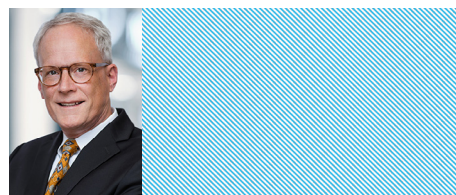


the second quarter. Tax refunds represent a significant influx of cash (> \$400 billion) that will at least partially be spent on addressing vehicle repairs.

As it turns out, the meager improvement in topline sales in the second quarter only represented a shift in sales from one quarter to the next, and it did not change anyone's overall assessment of the market. In conjunction with their reporting of financial results for the second quarter, all of the companies in the Index scaled back their guidance for 2024 full-year sales while reiterating their confidence in the long-term fundamental drivers of demand for their industry. The consensus was that the miles driven, the average age of the car park, and the prices of new and used vehicles all continue to support the industry. Furthermore, consumers remain relatively healthy, with strong employment and wage rates underpinning their ability to invest in the repair and maintenance of their vehicles. In the long term, all these things would come together

to restore the industry's historical sales growth of 4%. However, in the short term, the companies in the Index reported seeing some level of conservatism in how consumers were managing their spending in the face of elevated prices and uncertainty about the broader macroeconomic environment. The market had bottomed, but the recovery was now not expected to start until later in the year.

About the Index: The Hilco Parts Index is comprised of five publicly traded companies that distribute aftermarket parts, namely Advance Auto Parts (Advance), AutoZone, Genuine Parts (NAPA), LKQ, and O'Reilly Auto Parts (O'Reilly). 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. LKQ is largely a distributor of aftermarket collision-specific parts and recycled (used) parts.



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