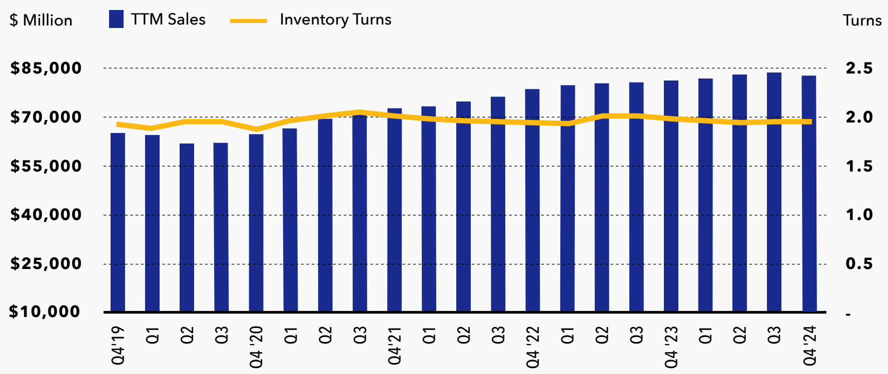
SMARTER PERSPECTIVE: AUTOMOTIVE

Aftermarket Parts Suffers a Mood Swing

By Keith Spacapan

April 23, 2025 - Compared to the two years prior, winter weather came early this year, and very cold weather, like very hot weather, leads to part failures (e.g., batteries). Winter weather also creates treatcherous driving conditions and cavernous potholes that increase the demand for under-car parts (e.g., ball joints and tie rods). For the final quarter of 2024, net sales were $19.5 billion for the five companies that comprise the Hilco Parts Index (HPI or the Index). On a nominal basis, net sales for the final quarter were down 0.4% from one year earlier. For stores that have been open for a minimum of 12 months, referred to as "same-store sales" or "organic sales", the results were mixed. In North America, organic sales for Autozone and O'Reilly Auto Parts were positive, LKQ and Advance Auto Parts were negative, and Genuine Parts (NAPA) was flat.

Hilco Parts Index



Hilco Parts Index (HPI): Advance Auto Parts, Auto Zone, Genuine Parts, LKQ, and O'Reilly Auto Parts

On the whole, the 2024 calendar year was viewed as challenging, with generally stronger headwinds than tailwinds. The industry had just recovered from supply chain shortfalls that were precipitated by the global pandemic and seemed to be in a holding pattern content to consolidate any gains they had achieved while they waited for the presidential eleciton to clarify the way forward. The trade war that has ensued, and the shifting tariff landscape, was not what anyone expected. During the first Trump administration, companies responded to the China-centric tariff regime by diversifying their supply chain. Mexico was one of the benefactors. The current administration has doubled down on tariffs and has left very few countries unscathed. There are very few alternatives for low-cost manufacturing that will not be impacted by the current tariff regime. This has prompted the companies in the Index to remind investors that most of

TTM Sales	Gross Margin	Net Margin	Inventory	Inventory Turns	Sales Q4 Only
$83,363	44.2%	7.5%	$23,716	2.0	$19,498
-0.1% QOQ	+5 bps QOQ	-70 bps QOQ	-0.2% QOQ	No Change	-12.5% QOQ
+1.5% YOY	+42 bps YOY	-125 bps YOY	+2.7% YOY	No Change	-0.4% YOY

their sales are nondiscretionary in nature, which historically has enabled them to increase prices to protect their margins when cost savings measures fail.

That said, each company in the Index was quick to point out that their financial guidance for 2025 did not factor anything in for the potential impact of the current tariff regime, which is a signal that there has been a distinct shift in the mood among the large public companies that sell aftermarket parts for a living. The characteristic self-confidence that comes from peddling parts that are largely non-discretionary in nature has been replaced with a level of caution in response to the ensuing trade war that says, "We are entering a period of unprecedented change for which we have no recent experience to serve as a guide." Companies are admittedly cautious regarding the potential for worsening economic conditions or the possibility of short-term economic shocks, particularly pressure on consumers from sustained high price levels, rapidly increasing interest rates, and spikes in gas prices.

By a quirk of the financial calendar, AutoZone has already posted results for the second quarter of their fiscal year, a 12-week period ended February 15, 2025. In terms of cadence. AutoZone's domestic organic sales increased 4.3% in the first 4-week period of the quarter, 2.8% in the second 4-week period, followed by a decrease of 1.2% in the final 4-week period. The trend does not bode well for the rest of the industry that will soon start reporting their financial results for the first quarter of 2025.

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