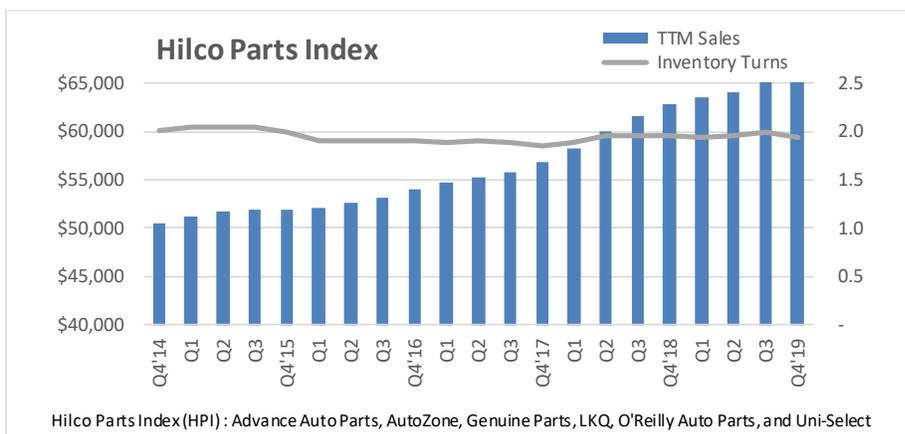


Aftermarket Parts Industry Exits Fourth Quarter Bracing for COVID-19

By Keith Spacapan

Net sales for the Hilco Parts Index (HPI) totaled \$65.5 billion for the fourth quarter of 2019, a 4.4% increase from one year earlier and 0.7% higher than the third quarter of 2019. Weather conditions across the country were unseasonably mild for December leading to lackluster performance from traditional winter categories like alternators, starters, batteries, wipers, and antifreeze. Nonetheless, the companies' reported results for the quarter were in line with expectations. Same store sales, or sales from stores open for at least one year, were



generally between 2.5% and 4.5% as compared to the fourth quarter of 2018. Improved gross margins indicate the industry's ability to pass along tariff increases to consumers but the improvement was not enough to offset the headwinds from labor inflation. As a result, net margins are down 7 basis points from a year ago.

AutoZone was the first company in the index to report earnings on November 23, 2019 and there was no mention of COVID-19. By the time LKQ reported their results on February 20, 2020, the industry had all but forgotten the still unresolved trade disputes and the focus turned to COVID-19. In the Company's prepared comments, Dominick Zarcone, President and CEO of LKQ, assured investors that because the virus outbreak occurred just prior to the Chinese New Year, LKQ had already ordered and received most stock from China needed for the first quarter. It is now clear that this is not just a "China" problem and Zarcone must have had an inkling to that effect because in his comments he also added, "everyone is clearly entering uncharted waters and it is too early to say what disruption companies would face across the business world." In a recent article in the Detroit Free Press, Jenni Newman, editor-in-chief of Cars.com, encouraged car owners to not delay needed car repairs for fear of parts shortages. Based on inventory turns, we know the aftermarket parts industry is holding an average of six months of inventory. However, for high-volume, high-demand parts, the on-hand supply may be significantly lower. And, when it comes to replenishment, the supply chain will prioritize the original equipment manufacturers (e.g. Ford and GM) over aftermarket distributors like those in the Hilco Parts Index.

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 parts distributor with a strong presence in Canada and LKQ is largely a distributor of recycled (used) parts, as opposed to new parts.

Sales	Gross Margin	Net Margin	Inventory	Inventory Turns
\$65,512	42.5%	7.1%	\$19,470	1.9
+ 0.7% QOQ	+ 7 bp QOQ	- 13 bp QOQ	+ 3.3% QOQ	- 0.1 QOQ
+ 4.4% YOY	+ 36 bp YOY	- 7 bp YOY	+ 4.6% YOY	- 0.1 YOY