

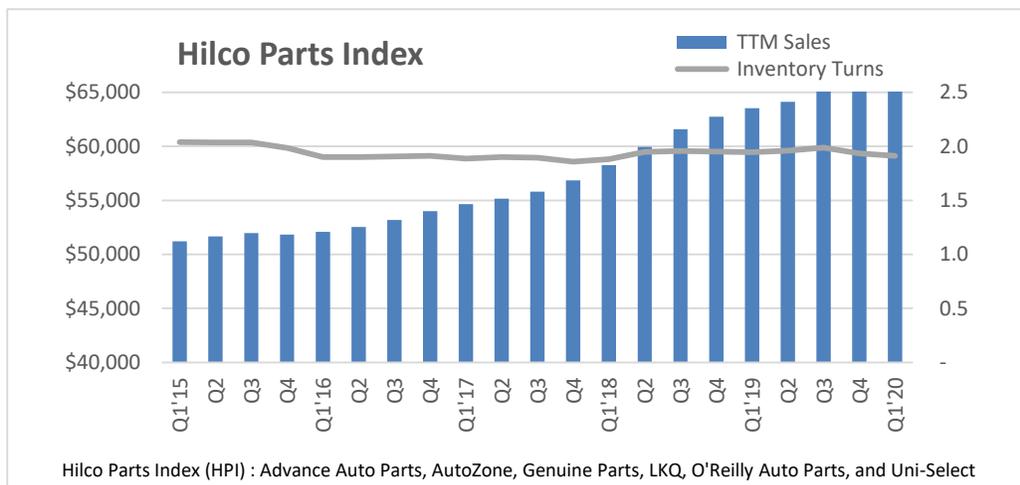
## Hilco Smarter Perspectives: Automotive Parts

Q1 2020

### Aftermarket Parts Industry Beginning to Show its Counter-Cyclical Nature

By Keith Spacapan

Trailing twelve-month (TTM) net sales for the Hilco Parts Index (HPI) totaled \$65.1 billion at the end of the first quarter of 2020, a 2.5% increase from one year earlier. However, net sales for just the first quarter were \$15.7 billion, a decrease of 2.6% from the first quarter of 2019. For the second consecutive year, mild winter temperatures were blamed for poor sales results in January and February. Sales of winter-related products (e.g. anti-freeze, batteries, steering and suspension) were finally beginning to respond in March when “shelter in place” orders were implemented across the country. While no geographies were immune to the impact of the pandemic, the hardest hit areas tended to be the Great Lakes and Northeast regions. Same store sales, sales from stores open for at least one year, were generally down between 2.5% and 5.0% as compared to the first quarter of 2019. Same store sales reported by Advance Auto Parts were down nearly 10% for the quarter because their first quarter is based on the 16 months ended April 18. The first two weeks in April appear to be the low point for sales during the pandemic in the United States and Canada and sales have been improving sequentially as the “shelter in place” orders are relaxed.



By the end of March, most companies implemented cost savings measures in response to falling sales. These have included eliminating overtime, furloughing employees, reducing hours, banning travel, suspending dividends, and cutting capital expenditures. Despite best efforts, their operating leverage was clearly lost in March with decreased revenue outpacing their ability to cut costs. The industry remains positive because fundamentals like low fuel prices remain in place and significant demand in the automotive aftermarket is nondiscretionary. Historically, the industry performs well in difficult macroeconomic environments as unemployment rises, new car sales decline, car parc ages, and more customers perform their own maintenance and repair. The big unknown moving forward is the possibility of a second wave of COVID-19.

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#### 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
\$65,098	42.6%	7.0%	\$19,550	1.9
- 0.6% QOQ	+ 14 bp QOQ	- 10 bp QOQ	+ 0.4% QOQ	No Change QOQ
+ 2.5% YOY	+ 41 bp YOY	No Change YOY	+ 3.7% YOY	No Change YOY