



Hilco™

Valuation Services Automotive Parts Perspective

1ST QUARTER 2019



INDUSTRY EXPERIENCE

Keith Spacapan is Vice President of Hilco's automotive practice. Keith has more than 30 years of automotive industry experience, including 15 years with General Motors as a divisional director of operations and finance. He has also worked with a wide range of automotive suppliers. His unique dual perspective—original equipment manufacturing and related suppliers—fosters a full understanding of the dynamics which impact asset value.

VALUATION EXPERIENCE

- FleetPride
- Gates Corporation
- GST AutoLeather
- Mefro Wheels
- Motovan
- Navistar
- Roadtrek
- Tesla
- Thor Industries
- TI Automotive

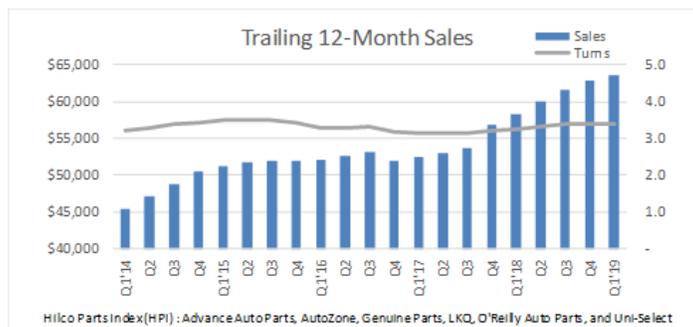
“Aftermarket Parts Market Has Solid First Quarter”

By Keith Spacapan

Net sales for the Hilco Parts Index (HPI) totaled \$63.5 billion for the first quarter of 2019, a 9.0% increase from one year earlier and 1.2% higher than the fourth quarter of 2018. The HPI is comprised of six publicly traded companies that distribute parts in the aftermarket parts market, namely Advance Auto Parts, AutoZone, Genuine Parts (NAPA), LKQ, O'Reilly Auto Parts, and Uni-Select.

Mild winter temperatures and a delay in tax refunds hurt sales results at the outset but as the quarter wore on the frigid temperatures that accompany a polar vortex were good for business. Snowy, frigid weather is always good for business, driving sales of batteries, wipers, brakes, lighting and suspension. Since then, abnormally high levels of rain have tempered sales, particularly in the do-it-yourself market. Nonetheless, Q1 weather is always volatile and all the companies in the Hilco Parts Index reaffirmed their full year guidance in the range of 2% - 4%.

One common thread running through the latest earnings calls with analyst was the concern over import tariffs. While the automotive industry has warned against the adverse effects of the current administration's trade policies, none of the Company's in Hilco's Parts In-



	Compared to Last Month	Currently	Compared to Last Year
Sales (\$000)	↑	\$63,526	↑
Gross Margin	↑	42.2%	↑
Net Margin	↓	7.0%	↓
Inventory (\$000)	↑	\$18,861	↑
Inventory Turns	↔	3.4	↑

dex voiced any difficulty recovering the costs to date from their customers. The executives seemed just as concerned with wage and freight inflation. None of the executives gave any indication that the industry's historically high gross margin was in any danger of changing. The average gross margin for the six companies in the Hilco Parts Index was 42.2% in the first quarter of 2019, an increase of 40 basis points from the first quarter of 2018.

The executives were also quizzed about their progress expanding their e-commerce

platforms. Most executives were able to report positive growth in the most recent quarter but admitted e-commerce still represents less than 5% of sales. The executives remain confident their position in the marketplace cannot be readily replaced without a product offering featuring national brands and private labels, a significant investment in inventory guaranteeing an extensive product, and a distribution network with sufficient reach that supports same day deliveries. I hope they are right but I fear they may be wrong.



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