

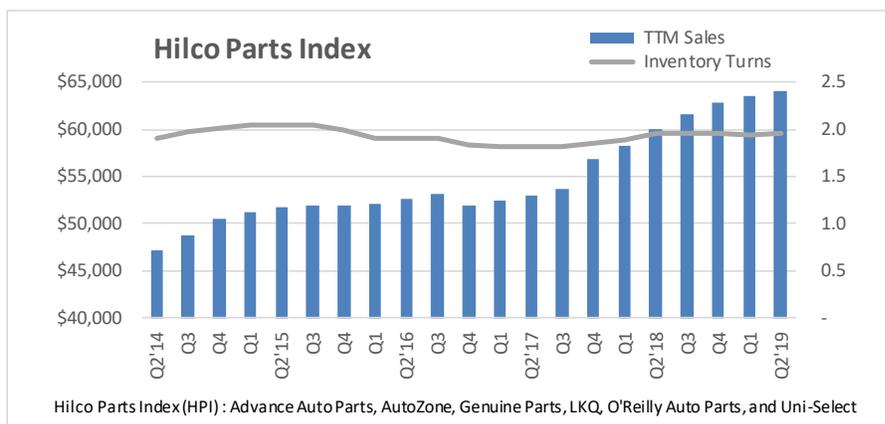
## Hilco Smart Insights: Automotive Parts

2<sup>ND</sup> QUARTER

### Add Tariffs to the List of Things Aftermarket Parts Have Overcome

By Keith Spacapan

Net sales for the Hilco Parts Index (HPI) totaled \$64.1 billion for the second quarter of 2019, a 6.9% increase from one year earlier and 0.9% higher than the first quarter of this year. Momentum from the first quarter carried over to the second, but then the weather turned cooler and wetter than usual, with May ending as one of the wettest on record. Industry wisdom says the DIY (retail) market is much more sensitive to weather conditions than the DIFM (commercial) market. Nonetheless, AutoZone and O'Reilly, the two



companies with the highest exposure to the retail market, posted the highest same store sales (sales for stores open at least 12 months) for the period. AutoZone and O'Reilly reported same-store sales of 3.9% and 3.4%, respectively. Same-store sales for Genuine Parts (NAPA) and Advance were 1.3% and 0.0%, respectively. NAPA has significant exposure in Europe and also to non-automotive businesses that are weighing on its results. Advance is admittedly underperforming the market, particularly the DIY market.

In general, the companies have exited the second quarter with strong sales results which appear, at least at the time of their earnings calls, to have carried over into the third quarter. None of the Companies were surprised with their first-half results and only made minor adjustments to their full year guidance (2% - 4%) for same-store sales. The companies were pressed by analysts about the potential for additional tariffs, but none voiced any concern about their ability to pass them on to consumers through price increases. In general, imports from China represent less than 10% of total sales and the weighted average impact was only about 1% during the first half of the year. Impact could double in the second half of the year depending on timing. Gross margins generally improved from prior periods but did not necessarily translate to the bottom line, as companies invested in new technology to support e-commerce, additional inventory to expand product offerings, and more locations to improve delivery times.

#### 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
\$64,113	42.3%	6.9%	\$18,872	2.0
+ 0.9% QOQ	+ 8 bp QOQ	+ 0.0 pp QOQ	+ 0.1% QOQ	+ 0.1 QOQ
+ 6.9% YOY	+ 47 bp YOY	- 0.4 pp YOY	+ 5.3% YOY	+ 0.1 YOY