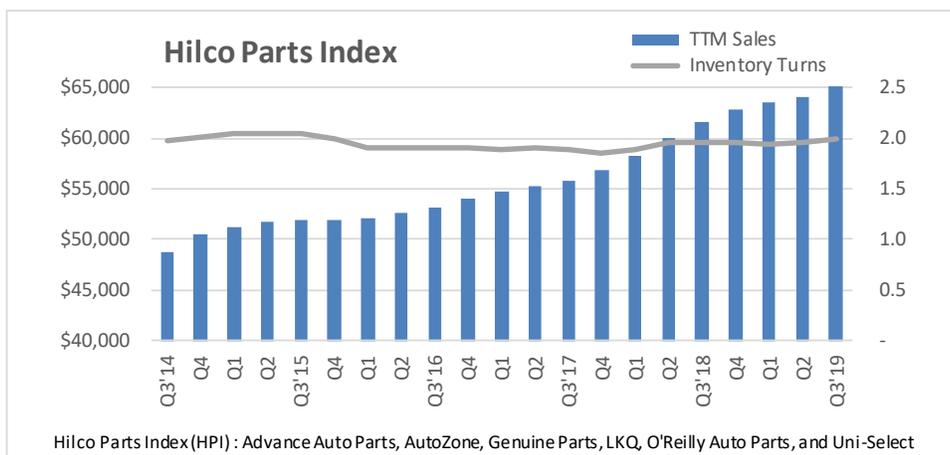


## Aftermarket Parts Industry Records Solid Third Quarter

By Keith Spacapan

Net sales for the Hilco Parts Index (HPI) totaled \$64.1 billion for the third quarter of 2019, a 5.7% increase from one year earlier and 1.5% higher than the second quarter of this year. The increase from the second to third quarter is always a bit overstated because the third quarter for AutoZone is a 16-week period. Advance has a similar financial calendar, which causes a similar distortion in the first quarter. Weather conditions returned to normal in the third quarter and all six companies in the index posted solid results for the quarter in line with internal expectations. Same store sales - sales reported from stores open for at least one year - were between 1% and 5% as compared to the third quarter of 2018. Including the impact from tariffs, year-over-year inflation was at least 2% - 3%. That means, some of these companies did not keep up with inflation. The commercial market continues to outperform the retail market but the latter is where e-commerce companies like Amazon have set their sights.



The aftermarket parts industry believes it will not be easy for outsiders to steal significant segments of their market because they do not have the technical knowledge needed to readily identify the specific part suited for the application. However, if artificial intelligence can be developed to drive autonomous vehicles, how much easier would it be to develop an electronic catalog capable of identifying the correct part? To protect their interest in the near term, the parts retailers have implemented a variety of wage adjustments and incentive programs to improve employee retention. To protect their interest in the long-term, the parts retailers are developing e-commerce capabilities that can deliver parts within 24 hours of placing an order, and systems that capture the professional knowledge resident in their workforce. Ultimately, it may come down to who has more money to spend. To free up the necessary cash, retailers are focused on reducing working capital requirements and cutting unnecessary selling as well as general and administrative expenses.

The aftermarket parts industry believes it will not be easy for outsiders to steal significant segments of their market because they do not have the technical knowledge needed to readily identify the specific part suited for the application. However, if artificial intelligence can be developed to drive autonomous vehicles, how much easier would it be to develop an electronic catalog capable of identifying the correct part? To protect their interest in the near term, the parts retailers have implemented a variety of wage adjustments and incentive programs to improve employee retention. To protect their interest in the long-term, the parts retailers are developing e-commerce capabilities that can deliver parts within 24 hours of placing an order, and systems that capture the professional knowledge resident in their workforce. Ultimately, it may come down to who has more money to spend. To free up the necessary cash, retailers are focused on reducing working capital requirements and cutting unnecessary selling as well as general and administrative expenses.

### 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
\$65,083	42.4%	7.2%	\$18,855	2.0
+ 1.5% QOQ	+ 13 bp QOQ	+ 26 bp QOQ	- 0.1% QOQ	+ 0.0 QOQ
+ 5.7% YOY	+ 54 bp YOY	- 21 bp YOY	+ 3.1% YOY	+ 0.0 YOY