

SMARTER PERSPECTIVE:  
AUTOMOTIVE AFTERMARKET

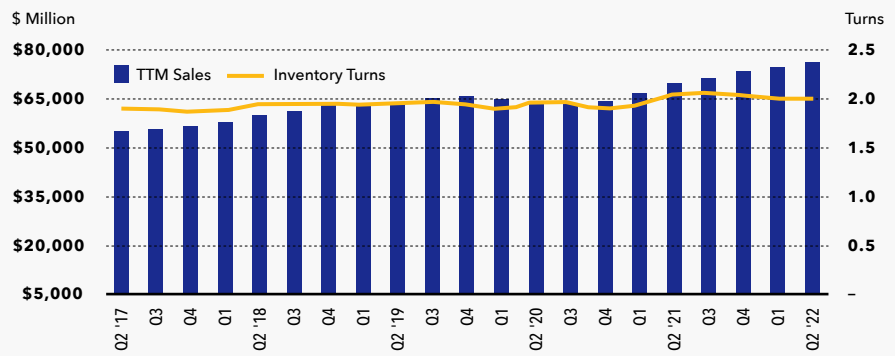
# Many Industry Fundamentals Remain Solid

By Keith Spacapan

**September 2, 2022** For the six companies in the HPI, net sales for the 12 months ended June 2022 increased 8.9% when compared to the 12 months ended June 2021. However, three months had passed by the time Advance Auto Parts (AAP) finally reported earnings for the second quarter and the mood had definitely deteriorated since the first of the companies reported financial results. AAP did not announce their results for the 12 weeks ended July 16, 2022 until August 24, 2022. By then, according to AAP, unit sales across the industry were down so all of the growth in retail was the result of pricing. This must be what the industry means when they say "inflation is our friend."

According to the latest reports, inflation in the aftermarket parts market is currently running in the high single digits. For the most part, the industry has been able to pass along these increases to the consumer but has found other cost increases such as higher wages and premium freight more difficult defray. In addition, the weakness in sales demand is related to retail sales where the industry earns its highest margins. The retail market is comprised of do-it-yourself customers who tend to be more economically constrained during a down market. These customers typically tend to buy high margin discretionary product categories like appearance chemicals and accessories, which were some of the better performing categories during the height of the pandemic. Retail

## Hilco Parts Index



Hilco Parts Index (HPI): Advance Auto Parts, Auto Zone, Genuine Parts, LKQ, O'Reilly Auto Parts, and Uni-Select

consumers have since reduced their purchases in these categories and the industry's gross margins have suffered.

Although the industry is not expecting any relief from inflation prior to the end of the year, many industry fundamentals remain solid. Unemployment is at very low levels and wages have been increasing, which helps to offset inflation. Meanwhile, fuel prices have steadily declined and miles driven have been recovering. Furthermore, there is a continuing shortage of new cars while prices for used cars remain stubbornly high. While nobody in the industry is expecting much in the short term, the general consensus seems to be that consumers are in a much stronger position than in recent periods of economic uncertainty. Longer term, the industry is confident that the non-discretionary nature of its business

will sustain it during a weak economy, much as it has in the past.

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

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**TTM Sales**

\$75,984  
+1.6% QOQ +8.9% YOY

**Gross Margin**

44.0%  
-15 bps QOQ -12 bps YOY

**Net Margin**

9.8%  
+23 bps QOQ +49 bps YOY

**Inventory**

\$21,466  
+3.2% QOQ +12.0% YOY

**Inventory Turns**

2.0  
No Change QOQ  
No Change YOY