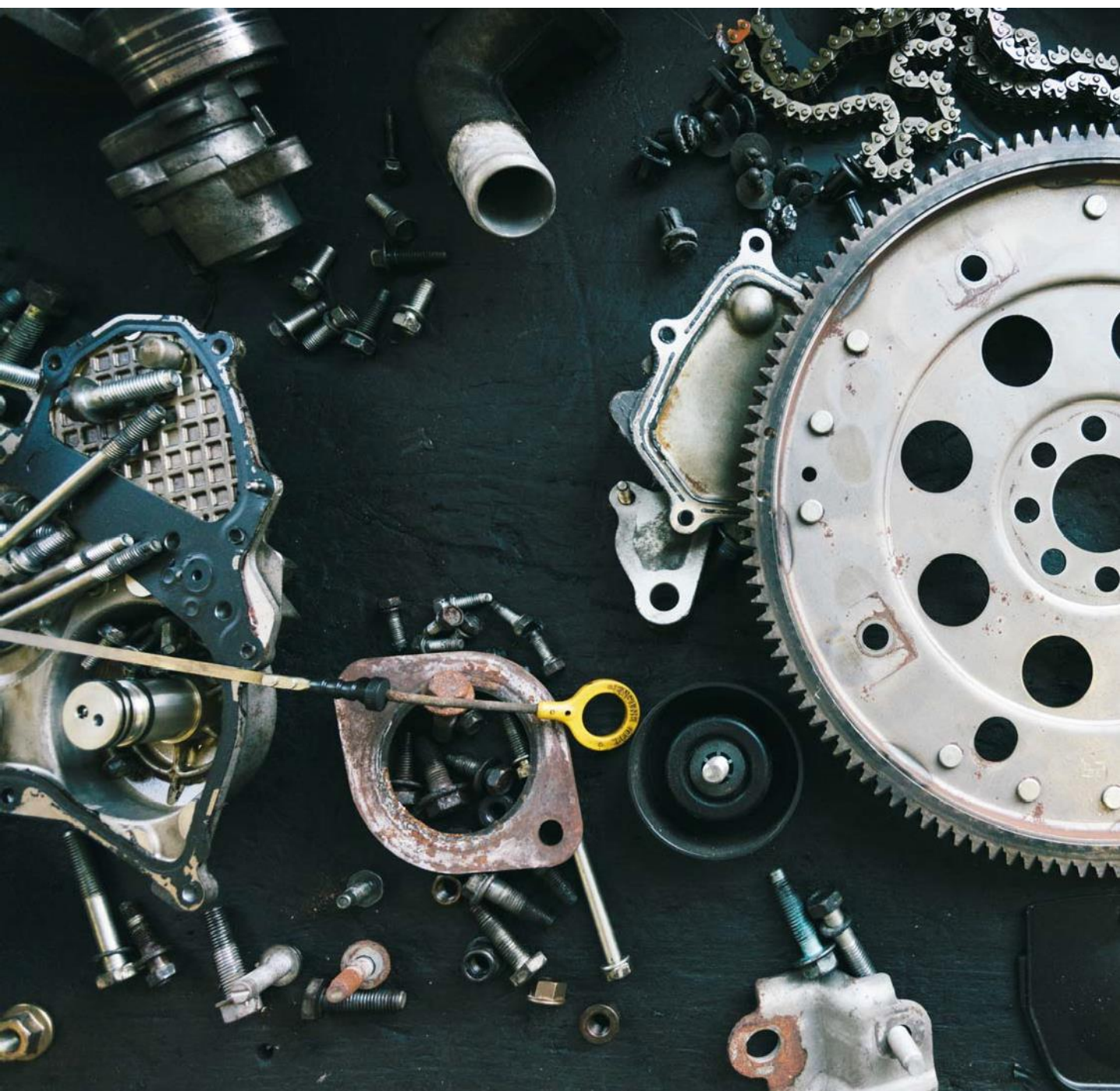




HOULIHAN LOKEY

# AUTOMOTIVE AFTERMARKET

MARKET UPDATE | 2020



# Automotive Aftermarket Market Update

Dear Clients and Friends,

Houlihan Lokey is pleased to present its 2020 Automotive Aftermarket Market Update.

Automotive aftermarket is a diverse sector comprising companies focused on manufacturing, distribution, retail, and/or services with both discretionary and nondiscretionary demand drivers. Houlihan Lokey's breadth provides expertise within all facets of the field, with bankers specifically dedicated to the automotive aftermarket.

Such diversity also provides a number of opportunities for investors, and Houlihan Lokey continues to be active in the sector, with multiple transactions currently in market. This firsthand feedback is able to bring current and appropriate advice for clients.

In this report, we have provided an introductory primer to key areas of the automotive aftermarket. We hope you find this update informative and welcome the opportunity to further discuss the sector. We look forward to staying in touch with you.

Regards,



**Steve Hughes**  
 Managing Director  
[SHughes@HL.com](mailto:SHughes@HL.com)  
 312.456.4753



**Cory Hebenstreit**  
 Senior Vice President  
[CHebenstreit@HL.com](mailto:CHebenstreit@HL.com)  
 312.456.4704

 a portfolio company of  has been acquired by  Sellside Advisor	 three portfolio companies of   ABL Revolver & Term Loan Refinancing \$150,000,000 Exclusive Placement Agent	 a portfolio company of SNOW PIPPIPS has been acquired by  a portfolio company of THE STERLING GROUP Sellside Advisor	 a subsidiary of  Bridgestone Americas, Inc. has been acquired by  Sellside Advisor	 has been acquired by a wholly owned subsidiary of  Financial Advisor	 has been acquired by Polaris Industries, Inc. Sellside Co-Advisor
 has been acquired by  Sellside Advisor	 has been acquired by  Sellside Advisor	 has acquired  Buyside Advisor	 has acquired  Buyside Advisor	 a portfolio company of  has been acquired by  Sellside Advisor	 a portfolio company of  has been acquired by  Sellside Advisor

Tombstones included herein represent transactions closed from 2009 forward.

# #1 M&A Advisor for All U.S. Transactions in 2019

by Refinitiv (formerly known as Thomson Reuters)

## 2019 M&A Advisory Rankings All U.S. Transactions

Advisor	Deals
<b>Houlihan Lokey</b>	<b>184</b>
Goldman Sachs & Co	167
JP Morgan	141
Morgan Stanley	122
Evercore Partners	112

## 2019 M&A Advisory Rankings All U.S. Industrial Transactions

Advisor	Deals
<b>Houlihan Lokey</b>	<b>46</b>
Lincoln International	40
Goldman Sachs & Co	35
Generational Equity	30
JP Morgan	25
Morgan Stanley	25

Source: Refinitiv (formerly known as Thomson Reuters)

## Mergers and Acquisitions

We have extensive expertise in mergers, acquisitions, divestitures, activist shareholder and takeover defense, and other related advisory services for a broad range of U.S. and international clients. Our experience in M&A has earned us consistent recognition throughout the industry. In 2018, we were ranked the No. 1 M&A advisor for all U.S. transactions, and we've been ranked No. 1 for U.S. transactions under \$1 billion for more than 10 years, according to Refinitiv (formerly known as Thomson Reuters).

# Market Overview

Broadly speaking, the automotive aftermarket sector can be bifurcated into those serving discretionary rather than nondiscretionary markets.

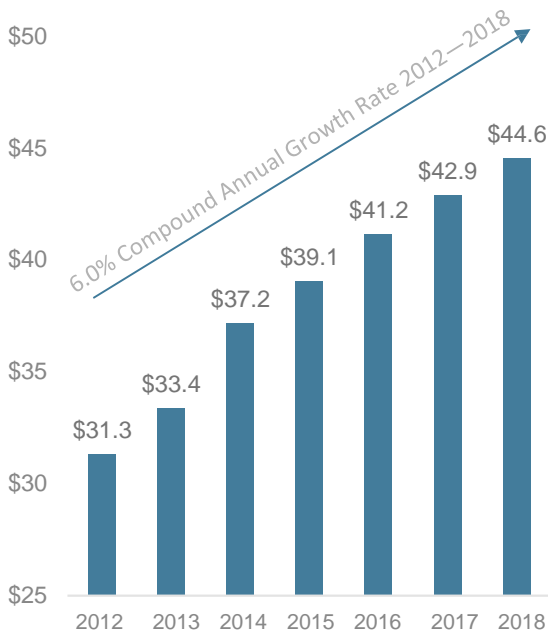
## Discretionary Aftermarket Overview

- Focused on making cars and trucks “look better, go faster, and do more”
- Tends to be an enthusiast-driven market and primarily do-it-yourself
- No pure-play, publicly-traded discretionary aftermarket companies
- Historically positively correlated to GDP growth
  - 6%+ compound annual growth rate from 2012 to 2018
  - 25%+ decline from 2007 to 2009

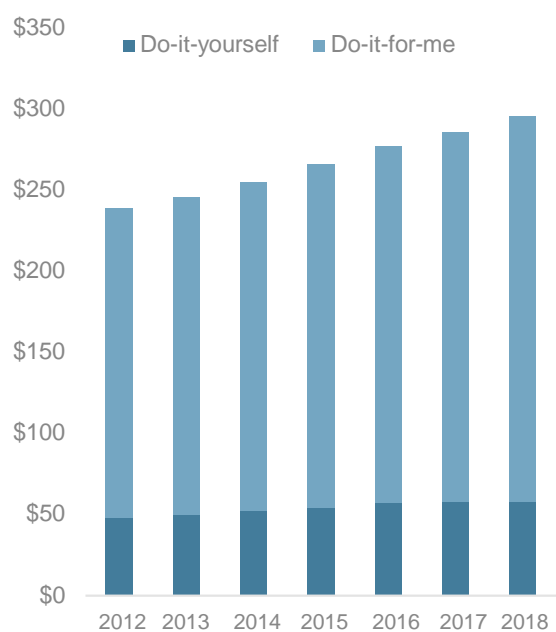
## Nondiscretionary Aftermarket Overview

- Primarily focused on repairing, replacing, and remanufacturing
- Demand driven by vehicles in operation, average vehicle age, and miles driven
- Relatively noncyclical or countercyclical, as parts break in all economic climates
- Consistent 3%+ annual growth for industry
- Primarily do-it-for-me market
- Long-term consolidation with multiple public companies

## Discretionary Aftermarket Sales (\$B)<sup>(1)</sup>



## Nondiscretionary Aftermarket Sales (\$B)

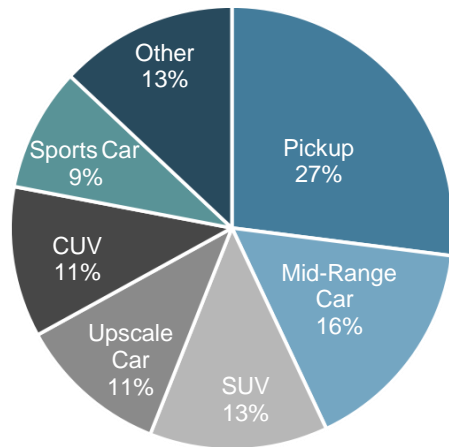


Source: Lang Research, SEMA U.S. Market Data, Auto Care Association/Modern Tire Dealer  
 (1) Defined as Specialty Equipment Retail Sales by provider

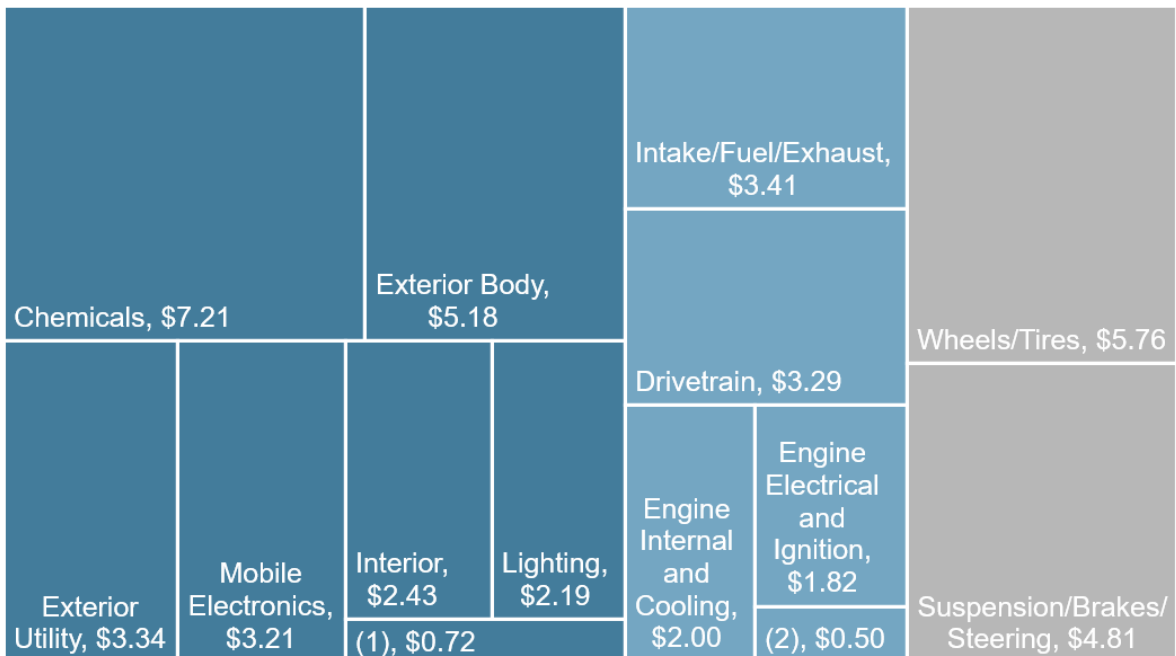
# Performance Upgrade Market

- Like overall car market currently, pickup trucks are the largest vehicle segment represented
- SUV is underrepresented relative to overall market; Jeep Wrangler is a notable exception
- 53% of overall market, or \$23.4 billion, for accessory and appearance products
- Driver Assist Systems category is expected to have the highest year-over-year growth
- No publicly traded pure-play performance upgrade companies
- Private equity has consolidated performance upgrade assets. Select examples include:
  - CCMP: Truck Hero
  - Kinderhook: Race Winning Brands, SCA
  - Sentinel: Holley

Consumer Purchase by Vehicle Segment



2018 Consumer Purchase by Category (\$B)



■ Accessory and Appearance ■ Performance ■ Wheels, Tires, and Suspension

Source: SEMA U.S. Market Data  
 (1) Driver Assist Systems  
 (2) Safety Gear

# Repair, Replace, and Remanufacture Market

- Repair, replace, and remanufacture market tends to display low levels of cyclicality
- Market driven by worn or nonfunctional components within a vehicle
- Demand from total vehicles, average vehicle age, and miles driven
- Population growth and low unemployment rates are driving North American vehicle parc growth
- “Sweet spot” for aftermarket repairs begins in a vehicle’s sixth year
- The aftermarket has yet to fully benefit from the flow-through to the “sweet spot” of the decade-long recovery in vehicle sales
- Increasing adoption rates of new technologies result in higher content per vehicle
- SKU proliferation paired with increasing business complexity requires supply chain sophistication of aftermarket players
- Undermaintenance of vehicles is leading to higher component failure rates, as technologically complex products require more disciplined maintenance
- Publicly traded companies are generally retailers, distributors, or remanufacturers:

Advance Auto Parts  
(NYSE:AAP)

LKQ  
(NASDAQGS:LKQ)

AutoNation  
(NYSE:AN)

Motorcar Parts of America  
(NASDAQGS:MPAA)

AutoZone  
(NYSE:AZO)

O’Reilly  
(NASDAQGS:ORLY)

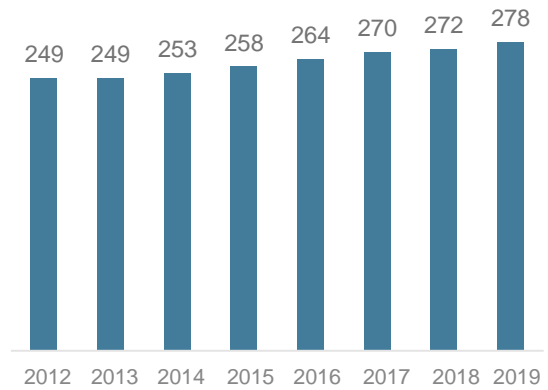
Dorman Products  
(NASDAQGS:DORM)

Standard Motor Products  
(NYSE:SMP)

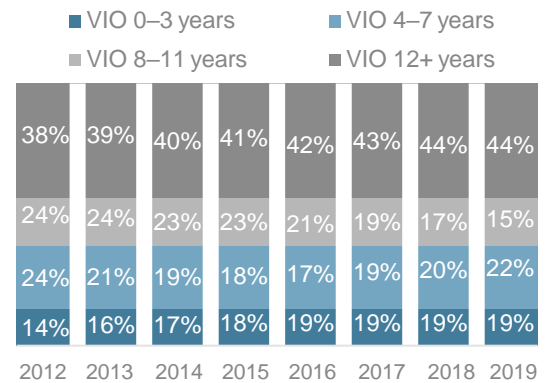
GPC  
(NYSE:GPC)

Uni-Select  
(TSX:UNS)

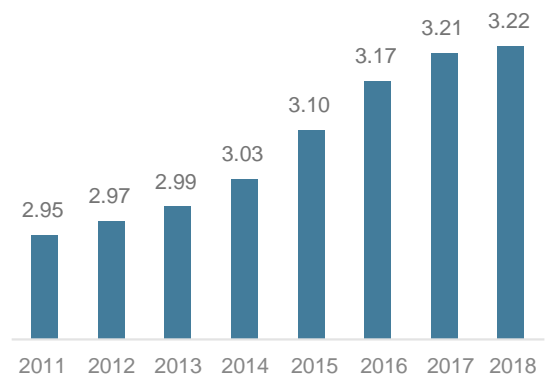
## U.S. Light Vehicle Parc (mm units)



## Age Mix of Vehicles In Operation



## U.S. Vehicle Miles Driven (trillion miles)



Source: HIS Markit and U.S. Department of Transportation

# Select 2019 Aftermarket M&A Transactions

- 2019 was an active year for aftermarket M&A, both in discretionary performance and nondiscretionary replacement markets
- Clearlake's Wheel Pros, Kinderhook's Bestop, Irving Place's Coker Tire, and CCMP's Truck Hero each made acquisitions in 2019, which further demonstrates private equity interest in aftermarket roll-up strategy

Date	Target	Buyer	Date	Target	Buyer
Dec 24	<i>Custom Wheel House</i>	THOMPSON STREET CAPITAL PARTNERS	May 07	Eastwood	KIAN CAPITAL
Dec 20	DieHard	Advance Auto Parts	May 06	RANDYS WORLDWIDE	TAILWIND CAPITAL
Dec 17	TruckLite	GENSTAR CAPITAL	May 01	ridetech	FOX FACTORY
Nov 22	CURT GROUP	LC INDUSTRIES	Apr 23	BACKRACK	TRUCK HERO
Nov 06	AMM DEFINE YOUR DRIVE	THE HALIFAX GROUP	Apr 09	purePOWER TECHNOLOGIES	Stanadyne
Oct 16	TruckPro	Platinum Equity	Apr 01	Certain Assets and Liabilities of Pollak Business of Stoneridge	SMP
Jul 30	MOVE	BASE	Mar 12		SCA PERFORMANCE
Jul 23	WE SALES CO. INC.	Autveco PRODUCTS	Mar 08	Wiper Systems Business of FEDERAL MOGUL	TRICO seeing you through.
Jun 19	Wheel Engineering	ORG	Mar 07	FRAM	TRICO seeing you through.
Jun 11	TOTAL SEAL PISTON RINGS	PROMUS EQUITY PARTNERS	Feb 21	BULL RING	Bestop
Jun 04	SOFOPPER.com	Bestop	Jan 28	Corvette America	CIDCAPITAL
May 16	MHT Luxury Alloys	WHEEL PROS	Jan 15	AIRTEX	TRICO seeing you through.
May 10	LUND INTERNATIONAL	TRUCK HERO	Jan 15	VINTAGE WHEEL WORKS	COCKER TIRE

Source: S&P Capital IQ

# Metrics for Select Publicly Traded Aftermarket Firms

## Trading Metrics

Comparable Company	Stock Price 1/22/20	Market Value of Enterprise			LTM			EV/LTM		EV/2019E		EV/2020P		
		Equity	Value	Net Debt	Sales	EBITDA	FCF	EBITDA	FCF	EBITDA	FCF	EBITDA	FCF	
<b>Automotive Aftermarket</b>														
Advance Auto Parts, Inc.	\$147.65	\$10,166	\$10,339	\$2,615	\$9,701	\$963	\$706	10.7x	14.7x	10.3x	12.7x	9.5x	11.8x	
AutoNation, Inc.	\$44.87	\$4,003	\$9,709	\$6,048	\$21,199	\$950	\$647	10.2x	15.0x	10.8x	15.5x	10.4x	15.3x	
AutoZone, Inc.	\$1,157.33	\$27,305	\$32,577	\$8,012	\$12,015	\$2,606	\$2,106	12.5x	15.5x	12.6x	15.2x	12.3x	14.6x	
Dorman Products, Inc.	\$77.83	\$2,536	\$2,482	(\$17)	\$1,012	\$181	\$148	13.7x	16.8x	17.0x	15.2x	12.9x	15.6x	
Genuine Parts Co.	\$100.21	\$14,560	\$17,579	\$4,068	\$19,290	\$1,395	\$1,072	12.6x	16.4x	12.2x	14.3x	11.6x	13.6x	
LKQ Corp.	\$33.92	\$10,395	\$13,897	\$4,801	\$12,499	\$1,288	\$1,044	10.8x	13.3x	10.8x	12.0x	9.9x	11.8x	
Motorcar Parts of America, Inc.	\$22.73	\$431	\$598	\$220	\$513	\$41	\$29	14.4x	20.9x	7.3x	7.5x	6.3x	7.1x	
O'Reilly Automotive, Inc.	\$435.71	\$32,965	\$36,626	\$5,612	\$9,982	\$2,185	\$1,550	16.8x	23.6x	16.5x	21.4x	15.6x	19.4x	
Standard Motor Products, Inc.	\$51.35	\$1,153	\$1,223	\$105	\$1,144	\$144	\$127	8.5x	9.6x	10.0x	10.8x	9.1x	10.8x	
Uni-Select Inc.	\$9.27	\$393	\$813	\$531	\$1,746	\$100	\$75	8.1x	10.9x	6.6x	7.9x	6.3x	7.6x	
								<b>Mean</b>	<b>11.8x</b>	<b>15.7x</b>	<b>11.4x</b>	<b>13.3x</b>	<b>10.4x</b>	<b>12.8x</b>
								<b>Median</b>	<b>11.6x</b>	<b>15.2x</b>	<b>10.8x</b>	<b>13.5x</b>	<b>10.2x</b>	<b>12.7x</b>

## Operating Metrics

Comparable Company	2018A Y-o-Y										2019
	LTM			LTM Margin			E Y-o-Y		Growth Rate		
	Sales	EBITDA	FCF	Gross	EBITDA	FCF	Sales	EBITDA	Sales	EBITDA	
<b>Automotive Aftermarket</b>											
Advance Auto Parts, Inc.	\$9,701	\$963	\$706	43.9%	9.9%	7.3%	2.2%	5.3%	1.5%	5.9%	
AutoNation, Inc.	\$21,199	\$950	\$647	16.4%	4.5%	3.0%	(0.6%)	(5.7%)	(0.5%)	0.6%	
AutoZone, Inc.	\$12,015	\$2,606	\$2,106	53.7%	21.7%	17.5%	2.4%	3.5%	6.3%	3.2%	
Dorman Products, Inc.	\$1,012	\$181	\$148	36.0%	17.8%	14.6%	7.8%	0.9%	4.5%	(27.6%)	
Genuine Parts Co.	\$19,290	\$1,395	\$1,072	32.5%	7.2%	5.6%	14.9%	14.4%	3.5%	2.0%	
LKQ Corp.	\$12,499	\$1,288	\$1,044	38.7%	10.3%	8.4%	22.0%	13.1%	5.4%	3.9%	
Motorcar Parts of America, Inc.	\$513	\$41	\$29	21.9%	8.1%	5.6%	9.8%	(37.2%)	14.7%	108.1%	
O'Reilly Automotive, Inc.	\$9,982	\$2,185	\$1,550	53.1%	21.9%	15.5%	6.2%	6.4%	6.3%	6.2%	
Standard Motor Products, Inc.	\$1,144	\$144	\$127	28.9%	12.6%	11.1%	(2.2%)	(13.0%)	5.1%	(5.7%)	
Uni-Select Inc.	\$1,746	\$100	\$75	31.9%	5.7%	4.3%	21.0%	(0.0%)	(0.1%)	8.0%	
				<b>Mean</b>	<b>35.7%</b>	<b>12.0%</b>	<b>9.3%</b>	<b>8.3%</b>	<b>(1.2%)</b>	<b>4.7%</b>	<b>10.4%</b>
				<b>Median</b>	<b>34.2%</b>	<b>10.1%</b>	<b>7.8%</b>	<b>7.0%</b>	<b>2.2%</b>	<b>4.8%</b>	<b>3.5%</b>



## Disclaimer

---

© 2020 Houlihan Lokey. All rights reserved. This material may not be reproduced in any format by any means or redistributed without the prior written consent of Houlihan Lokey.

Houlihan Lokey is a trade name for Houlihan Lokey, Inc., and its subsidiaries and affiliates, which include those in (i) the United States: Houlihan Lokey Capital, Inc., an SEC-registered broker-dealer and member of FINRA ([www.finra.org](http://www.finra.org)) and SIPC ([www.sipc.org](http://www.sipc.org)) (investment banking services); Houlihan Lokey Financial Advisors, Inc. (financial advisory services); HL Finance, LLC (syndicated leveraged finance platform); and Houlihan Lokey Real Estate Group, Inc. (real estate advisory services); (ii) Europe: Houlihan Lokey EMEA, LLP, and Houlihan Lokey (Corporate Finance) Limited, authorized and regulated by the U.K. Financial Conduct Authority; Houlihan Lokey S.p.A; Houlihan Lokey GmbH; Houlihan Lokey (Netherlands) B.V.; Houlihan Lokey (España), S.A.; and Houlihan Lokey (Corporate Finance), S.A.; (iii) the United Arab Emirates, Dubai International Financial Centre (Dubai): Houlihan Lokey (MEA Financial Advisory) Limited, regulated by the Dubai Financial Services Authority for the provision of advising on financial products, arranging deals in investments, and arranging credit and advising on credit to professional clients only; (iv) Singapore: Houlihan Lokey (Singapore) Private Limited, an “exempt corporate finance adviser” able to provide exempt corporate finance advisory services to accredited investors only; (v) Hong Kong SAR: Houlihan Lokey (China) Limited, licensed in Hong Kong by the Securities and Futures Commission to conduct Type 1, 4, and 6 regulated activities to professional investors only; (vi) China: Houlihan Lokey Howard & Zukin Investment Consulting (Beijing) Co., Limited (financial advisory services); (vii) Japan: Houlihan Lokey K.K. (financial advisory services); and (viii) Australia: Houlihan Lokey (Australia) Pty Limited (ABN 74 601 825 227), a company incorporated in Australia and licensed by the [Australian Securities and Investments Commission](#) (AFSL number 474953) in respect of financial services provided to wholesale clients only. In the European Economic Area (EEA), Dubai, Singapore, Hong Kong, and Australia, this communication is directed to intended recipients, including actual or potential professional clients (EEA and Dubai), accredited investors (Singapore), professional investors (Hong Kong), and wholesale clients (Australia), respectively. Other persons, such as retail clients, are NOT the intended recipients of our communications or services and should not act upon this communication.

Houlihan Lokey gathers its data from sources it considers reliable; however, it does not guarantee the accuracy or completeness of the information provided within this presentation. The material presented reflects information known to the authors at the time this presentation was written, and this information is subject to change. Houlihan Lokey makes no representations or warranties, expressed or implied, regarding the accuracy of this material. The views expressed in this material accurately reflect the personal views of the authors regarding the subject securities and issuers and do not necessarily coincide with those of Houlihan Lokey. Officers, directors, and partners in the Houlihan Lokey group of companies may have positions in the securities of the companies discussed. This presentation does not constitute advice or a recommendation, offer, or solicitation with respect to the securities of any company discussed herein, is not intended to provide information upon which to base an investment decision, and should not be construed as such. Houlihan Lokey or its affiliates may from time to time provide investment banking or related services to these companies. Like all Houlihan Lokey employees, the authors of this presentation receive compensation that is affected by overall firm profitability.



CORPORATE FINANCE  
FINANCIAL RESTRUCTURING  
FINANCIAL AND VALUATION ADVISORY

[HL.com](https://www.hl.com)