Auto Parts E-commerce Continuing to Hit on all Cylinders

$12bn U.S. auto part e-commerce industry[2]

16% - 20% forecast growth[2,3]

$7.5bn of U.S. auto part e-commerce on mobile devices[2]

CONTRIBUTOR

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Merger and acquisition activity within the auto aftermarket continues to showcase robust growth driven by strong industry fundamentals. The U.S. light vehicles in operation and miles driven continue to increase across an aging fleet, resulting in increased wear and tear that is driving the purchase of aftermarket products and parts. Consumers continue to spend to maintain their vehicles even in a downturn, providing stability to the aftermarket industry. Over twice as many used cars (~39 million[1]) are sold each year in the U.S. compared to new cars (~17 million[1]), providing scale to the aftermarket industry. Both sellers and buyers of used cars turn to the aftermarket to repair, upgrade and personalize their used car purchases. Aftermarket part suppliers can generate outlier valuations by establishing leading direct-to-consumer and order fulfilment infrastructures to capitalize on these strong underlying industry fundamentals.

Within the auto parts aftermarket, e-commerce revenue has experienced rapid growth increasing from ~$6 billion four years ago to ~$12 billion in 2019 (excluding auctions and used parts). Aftermarket e-commerce sales are forecasted to grow between 16% to 20% from 2019 to 2022, driven by key factors that are increasing customer purchasing via the online channel:

- Time, value and convenience
- Price sensitivity and data availability
- Improving logistics capabilities
- Mobile purchasing platforms and sellers
- Increase in technologically savvy consumers

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More Complex Cars Continue Shift toward DIFM – Opportunity for Savvy E-commerce Sellers to Capitalize by Partnering with Repair/Installation Shops for One-click Local DIFM Options

Do-it-yourself (DIY) currently comprises 19%[4] of the auto aftermarket (down from 22% in 2008[4]) and DIY is, in general, more likely to go through e-commerce than the Do-It-For-Me (DIFM) channel (the remaining 81%[4] of the auto aftermarket). Delivery time for a DIY customer is not as critical as a repair shop (DIFM) that typically requires parts with an hour ("last mile" of coverage). Smaller, less time-sensitive parts that do not require guidance from auto care professionals (e.g. chemicals, coolants, waxes/polishes, basic maintenance parts, appearance, performance and functional upgrades) are well-suited for online sales among customers who are capable of making updates on their own.

More advanced vehicle features (e.g. sensors, lane departure systems, adaptive cruise control systems, 360-degree cameras, infotainment technology) make it increasingly difficult for consumers to repair vehicles at home. In addition to the added complexity of a vehicle, an increasing number of consumers want to choose their auto parts online but have a professional install them to ensure part quality and competitive pricing. Savvy e-commerce auto parts sellers are partnering with repair/installation shops to offer one-click DIFM local options to the buy box when a part is purchased.

Aftermarket auto part suppliers may be more exposed to either the DIY or DIFM channel than they realize depending on their retail store customer base. There is a fair amount of variability within the auto part retail space as AutoZone has 80%[5] DIY customers while GPC/NAPA has 25%[5] DIY customers.

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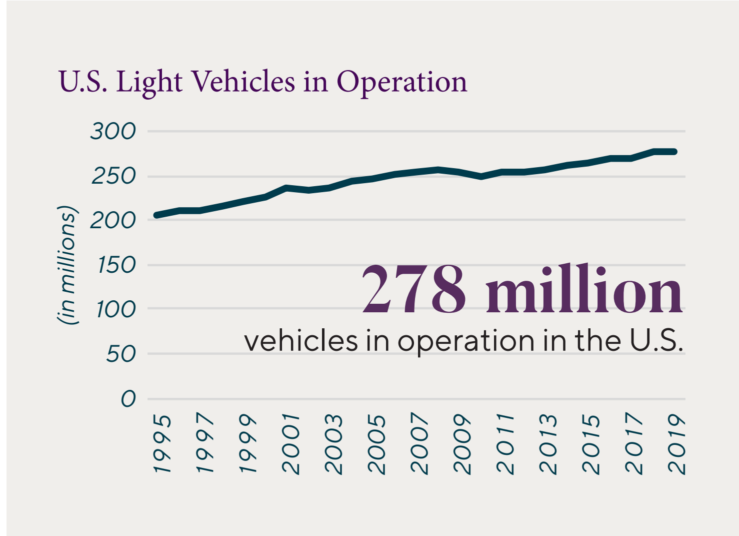

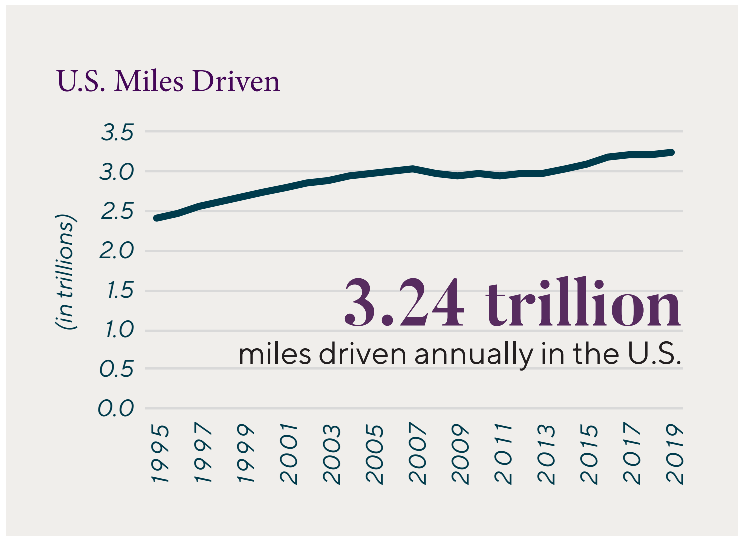

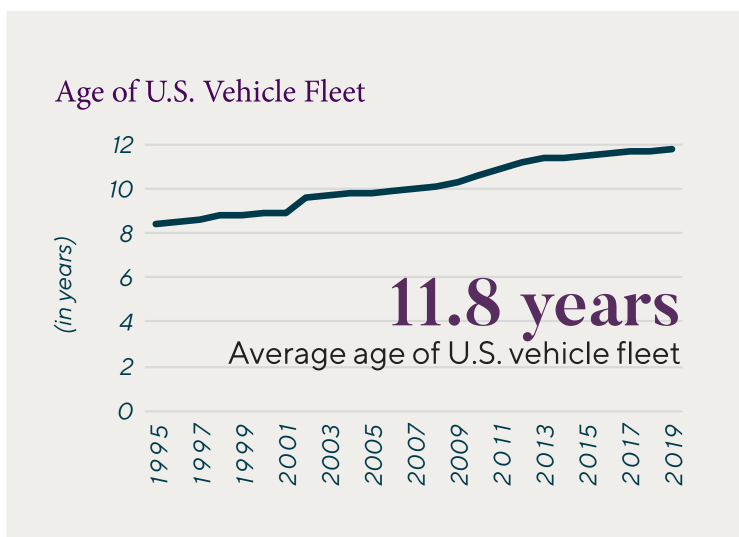

Sources: U.S. Department of Transportation, Federal Highway Administration, PricewaterhouseCoopers, WSJ, Wall Street Research, Bureau of Transportation Statistics, IHS Markit

Surviving and Thriving in the Age of Amazon – Providing a True Connection with Customers

Mobile purchases make up over 60% of auto parts e-commerce and are forecasted to grow at over 25%[2] over the next few years. Marketing to mobile devices, mobile-friendly websites, brand recognition and social media presence are key for e-commerce auto parts businesses to continue to stay relevant in this fast-growing industry.

90%+[1] of customers research auto parts before purchasing. Customers seek detailed product descriptions and information (i.e. confirm it will fit their vehicle, detailed warranty). Supplier websites typically have more detailed product descriptions than marketplaces (e.g. Amazon and Walmart), which provides suppliers an opportunity for direct-to-consumer sales. ~60%[2] of customers visit the supplier's website to research the product before purchasing. This provides an opportunity for a supplier to influence the buyer's perception and sell directly if a direct-to-consumer infrastructure is in place, allowing the supplier to capture additional margin.

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of customers research auto parts before purchasing[1]

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2/3+
of auto part e-commerce is through Amazon (includes 1st party and 3rd party sales)[2]

Amazon continues to be a dominate channel given its overall influence on e-commerce and user traffic. Over 2/3[2] of auto part e-commerce is conducted through Amazon. The Amazon marketplace is comprised of both first-party sellers (sells directly to Amazon at wholesale who then sells to consumers; i.e. "Ships from and sold by Amazon") and third-party sellers (sells directly to consumer using Amazon as a marketplace; i.e. "Fulfilled by Amazon" or "Ships and sold by [Third Party]"). Amazon is pushing to move high-volume auto parts to first-party sales, while shifting low-volume parts to third-party sales. Currently about 1/3[2] of Amazon auto part sales are through third-party sellers.

Streamlined Least Resources Required ⟷ ***Most Involved Infrastructure Required***

Marketplace		Company-owned Website
"Ships from and sold by Amazon" Turn-key Solution from Amazon (First-party Sales)	**"Fulfilled by Amazon" or "Ships and sold by [Third Party]" (Third-party Sales)**	
• Turn-key solution offered by Amazon where products are sold to Amazon at wholesale and Amazon takes ownership of inventory • Lower gross margin to supplier • Limited control over product listings and pricing • FBA order fulfilment • 20% to 40% of sales goes to Amazon	• Brand lists and manages sales of products directly • Higher gross margin to suppliers • Requires In-house or FBA order fulfilment • Ability to drive brand awareness through • 10% to 15% of sales goes to Amazon	• Full control of branding, pricing and length/detail of product description • Highest gross margins to suppliers • Requires front-end (i.e. SEO, social media and e-commerce-friendly website) and back-end (i.e. kitting and fulfilment) infrastructure • 0% of sales goes to Amazon

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Lincoln Perspective

From an M&A standpoint, we continue to see strong interest in auto aftermarket from both strategic and financial investors, driven by strong industry fundamentals and forecasted growth. Demonstrating either a strong e-commerce platform or brand leadership will drive above average multiples for auto aftermarket assets. If a company can demonstrate both a strong e-commerce platform and brand leadership, investors will be willing to pay an outlier valuation (e.g. K&N Engineering, Truck Hero).

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Chris has significant M&A advisory experience, working on numerous transactions for Fortune 500 companies, leading private equity firms and privately held businesses as well as providing equity and debt financing advisory for both public and private companies. Chris actively works with companies in the automotive and automotive aftermarket business sectors. He brings a deep understanding of the automotive industry to his clients by actively monitoring sub-verticals and staying up-to-date on the latest trends and technologies. Through a collaborative approach, Chris helps clients seize opportunities as a result of technology development that is creating new market entrants and causing consolidation and repositioning of existing business models. Previously, Chris worked for Ford Motor Company in corporate finance within the product development and manufacturing divisions.

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