

#SA Expertise

It's a Rapidly Changing Aftermarket ...and It's Not Going to Slow Down

Since its inception, the aftermarket has been in a constant state of change. Over the past decade, the pace and magnitude of change has increased exponentially, greatly impacting the distribution segment of our industry. If you own an aftermarket distribution business, no doubt you feel the increased pressure every day from every direction.

The pace of change has accelerated, and will certainly continue. Consider the following: In the 1970s, there were approximately 30 program distribution groups in the aftermarket. By 1995, that number had been cut in half. Today, there are only a few national groups left – and that number is likely to drop as mergers and acquisitions continue among independent WDs. These days, acquisitions seem to happen on almost a weekly basis, creating new alliances and crossing previously sacred boundaries.

And the challenges don't end there; competition from the public chain stores continues to put tremendous pressure on traditional distributors as the "Big Four" (Advance Auto Parts, AutoZone, Genuine Parts Co., and O'Reilly Auto Parts) take a bigger share of the commercial distribution business every quarter. Virtually every quarterly report from the Big Four shows them increasing revenue, expanding their national footprint and continuously adding new stores and DCs. It's no surprise that their increasing market share often comes at the expense of independent aftermarket distribution companies. They are able to do these things because the Big Four have a significant product acquisition cost and terms advantages over privately held distributors, even those affiliated with larger program groups. It is relatively easy for a company like AutoZone to grow its store inventories when accounts payables are at more than 107 percent of inventory. It is much harder for independent distribution companies to keep up

with inventory demands, with far less favorable pricing and payment terms from vendors.

But with change comes opportunity, and there is considerable interest in the distribution space from investors from both outside and inside the industry. Distribution valuations are high, and multiples are currently very strong. This environment won't last forever, so it makes sense for even the strongest WDs to carefully assess and understand what the value of their business might be. Now could be the best time to take advantage of market conditions and consider all of your options. These include finding a buyer for your business or aligning with an investment partner to help fund your growth and provide financial support.

Is it time for you to do some serious homework on your future options? We suggested you call proven experts – Schwartz Advisors. With unmatched integrity, industry expertise and M&A experience, Schwartz Advisors provides leading-edge and comprehensive M&A advisory services to privately held light-vehicle and commercial truck aftermarket companies and investors. SA has helped dozens of family owned WDs assess their options and, when the time comes, support them during a complex and life-altering process. For more information, please visit www.schwartzadvisors.com. For more personal attention, contact one of our expert staff:

Rick Schwartz: rschwartz@schwartzadvisors.com

Bruce Tartaglione: btartaglione@schwartzadvisors.com

Curtis Draper: cdraper@schwartzadvisors.com

Brian Cruickshank: bcruickshank@schwartzadvisors.com