

# #SA Expertise

## SA Perspective: Five Things to Consider and Two to Avoid Before Investing in the Automotive Aftermarket

Let's suppose you're thinking about acquiring a company in the US automotive aftermarket. Let's say your target is a well-positioned player, supplies powertrain and suspension components to both professional shops and do-it-yourself enthusiasts and is projecting a solid growth pattern for the next five years. As you read through the CIM, recent headlines roll around in the back of your head: A European vehicle manufacturer just announced a partnership with one of the Detroit Big 3 on electric vehicles. A Bay Area software giant just demonstrated autonomous technology, claiming a roll out next year. A national magazine just declared the death of car ownership in the next five years. Let's step back and consider five aftermarket realities:

- **Keep Technology in Perspective** – There are 272 million light vehicles in operation on America's highways, collectively traveling 3.2 trillion miles every year. Despite technological advancements, it takes a long time for a significant percentage of new technology to displace existing vehicles and truly impact the shop floor of an automobile service center.
- **Car vs Truck** – Approximately 70 percent of new car sales in the US are actually light trucks. Light trucks represent about 56 percent of the VIO and that number is growing. They are accessorized more, modified more extensively and abused more in their lifetime – all good things for the aftermarket. How light-truck oriented is your acquisition?
- **ICE vs BEV** – The headlines would have you believe that battery electric vehicles (BEVs) will kill off the internal combustion engine (ICE). SA's forecast is that 75 percent of new cars sold in 2035 will be ICE powered – but 70 percent of them will also have some form of hybrid electrification, ranging from micro hybrid stop/start technology to mild hybrid 48v power. There is no doubt that battery advancements and new solutions to vehicle range will accelerate the growth of BEV vehicles, but ICE advancements are also happening. The ICE/EV debate is still developing.
- **Embedded Software and SOTA** – If your acquisition is powertrain oriented, a major consideration is the company's ability to manage version control and updates for the embedded software it employs in its control modules. Vehicle manufacturers are increasing the number of modules that can employ Software Over The Air (SOTA) updates. As a result, aftermarket suppliers need to be able to roll with those changes. How much does your acquisition understand about embedded software?
- **The Emergence of TaaS** – The average cost of a new car is now beyond the reach of most Americans. Vehicle manufacturers have stretched payments to 84 months and moved more people to leased vehicles. Now, new business models like car sharing and vehicle subscriptions

are offering alternatives to the classic ownership model. The implications on the aftermarket are twofold: 1) These new Transportation as a Service (TaaS) models will change the B2C relationships of today's service shops to more B2B connections with fleet management companies; and 2) Today's car sharing and other TaaS programs are the platform for fleet managed autonomous vehicles. They will enter as low speed package delivery pods and grow to offer on-demand people movement. Can your acquisition service the TaaS and autonomous future?

Now, two things to avoid:

- **Lack of Car Count Awareness** – Avoid any acquisition that does not have a strategy to educate service technicians through the use of augmented reality. Car counts in service shops are diminishing, so the ability to turn a bay quickly is paramount. Augmented reality will play a central role in the attraction and retention of new technicians and a shop's ability to increase its car count.
- **Invisible Inventory** – The TaaS future will demand a new level of inventory transparency. Blockchain-based logistics will require every supplier to fully understand and be able to access its field inventory to maintain the up-time of autonomous and other fleet managed vehicles. Online ordering and vehicle connectivity will keep your acquisition in the game.

For more information on Schwartz Advisors' aftermarket-focused services or to contact us for more insight and commentary on this and other topics related to the North American motor vehicle aftermarket, please visit [www.schwartzadvisors.com](http://www.schwartzadvisors.com) or email SA CEO Rick Schwartz at [rschwartz@schwartzadvisors.com](mailto:rschwartz@schwartzadvisors.com).

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