

#SA Expertise

SA Perspective: Challenging Market Trends Create WD Opportunity

When is the right time to consider an ownership transition? The SA team of aftermarket experts closely monitors the industry for opportunities for our clients, and we think today's environment poses significant challenges to privately held WDs – and creates opportunities. Those challenges, coupled with often high WD valuations and multiples, make now a good time to consider transitioning your business to the next owner.

Here are four current and anticipated challenges that affect privately held distributor profitability:

1. **Revenue:** Revenue increases at Advance, AutoZone, GPC and O'Reilly are outpacing general overall market growth. They are accomplishing this through increased market share, often at the expense of privately held aftermarket distribution companies.
2. **Gross Margin:** These same public distributors have significant product acquisition cost advantages. This is a serious and growing handicap for any private distribution company trying to improve gross margin.
3. **Interest Rates:** Interest rates are likely to continue to rise in the US. This has two adverse effects: First, it will increase borrowing expense for private companies with debt. Second, higher interest rates make buyer financing more expensive - and that might reduce what buyers are willing to pay for an acquisition.
4. **Inventory Proliferation and Financing:** With accounts payable at 107% of inventory, growing inventory is easy for large companies like AutoZone. It is much harder for privately held distribution companies to keep up, with far less favorable payment terms from vendors.

This is indeed a time of great change in the industry. But with change comes opportunity. 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 strong. This environment, however, won't last forever, so it makes sense for even the strongest WD to consider and understand all of its options. Contact the aftermarket experts at Schwartz Advisors; we know the market and can advise distributors on all their options.

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 or email SA CEO Rick Schwartz at rschwartz@schwartzadvisors.com. Additionally, the SA team will be at the AWDA Conference, as well as AAPEX & SEMA shows in late October and would welcome the opportunity to meet confidentially with you to discuss opportunities. Contact us to arrange.

About Schwartz Advisors

With unmatched industry expertise and experience, Schwartz Advisors provides leading-edge and comprehensive M&A advisory services, growth planning and strategic analysis to middle-market light-vehicle and commercial truck aftermarket companies and investors. SA's team of automotive and transportation industry executives and industry leaders brings their proven expertise to merger and acquisition opportunities and strategic growth opportunities.

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