

Automotive Aftermarket Update
Significant Momentum Driving Expectations for 2021

Key Attributes of the Automotive Aftermarket

The automotive aftermarket boasts a multitude of highly compelling industry dynamics



Massive market opportunity



Generally performs well during recessionary periods



Nondiscretionary, needs-based demand



Produces higher margins, greater free cash flows, and more stable returns than OEMs



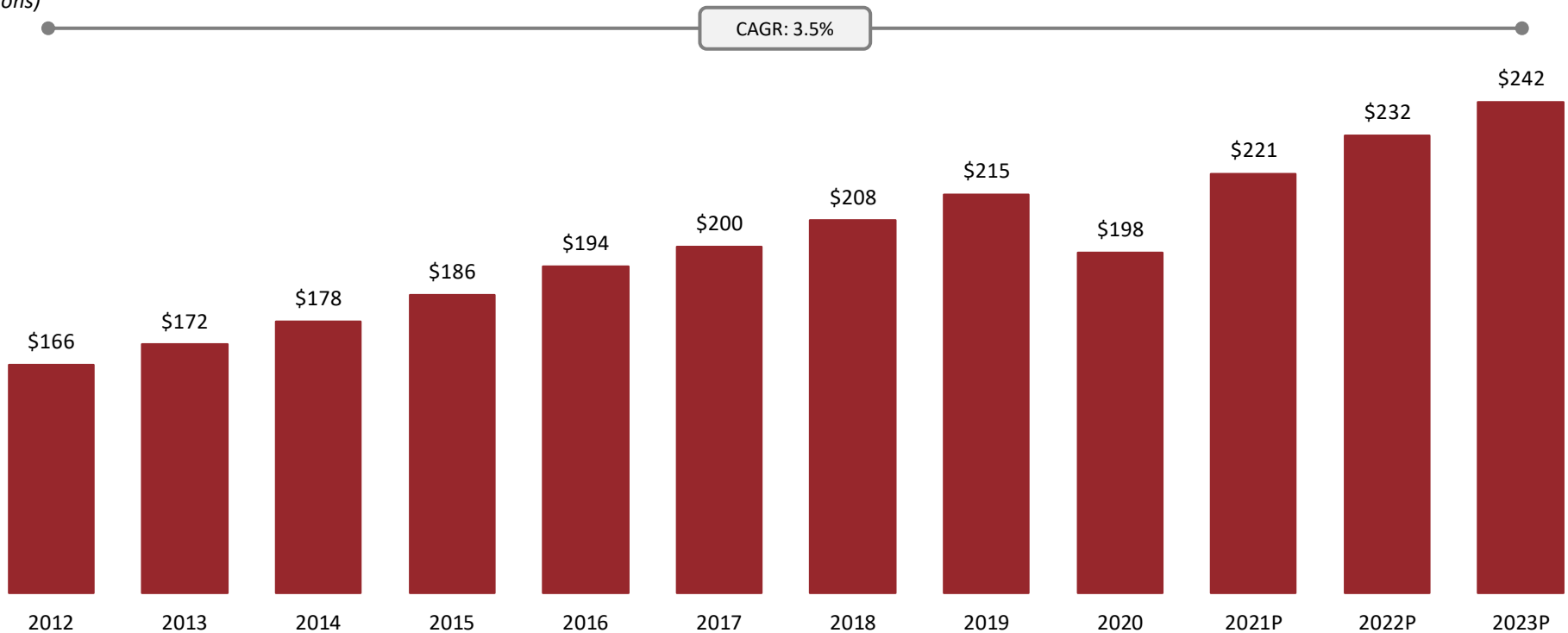
E-commerce growth continues to accelerate

Resizing the Market Opportunity – 2020 and Beyond

- The automotive aftermarket remains a large and growing industry
 - The industry has seen steady growth over the last decade, with a 10-year CAGR of ~3.5%¹
 - Despite meaningful headwinds presented by COVID-19, analysts forecast the industry will recover quickly and grow 11.6% in 2021²
- Favorable trends will drive continued growth
 - Increasing vehicles in operation, aging of vehicles, and the integration of advanced technologies are three trends that will spur growth in the industry

U.S. AUTOMOTIVE AFTERMARKET GROWTH³

(\$ in billions)



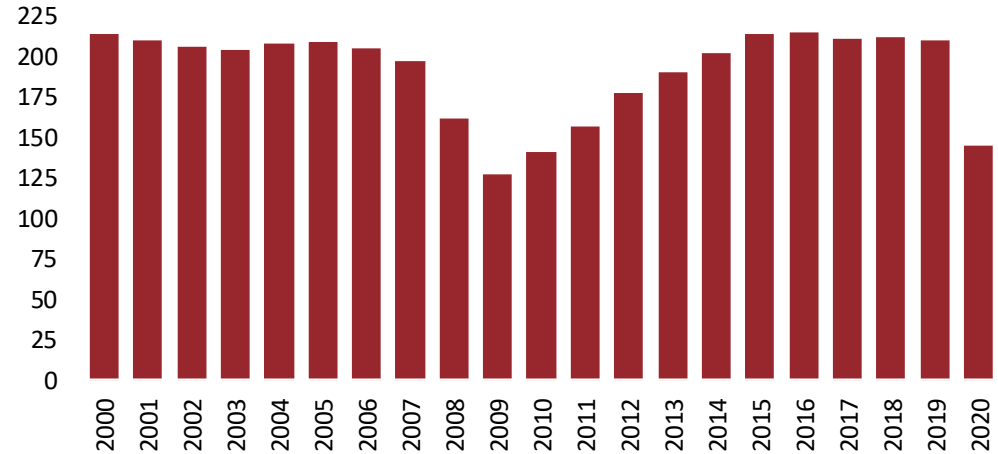
1. Source: AAIA
2. Source: ibid.
3. Source: ibid.

Favorable Car Parc Dynamics

- Global new vehicle sales declined from ~210M in 2019 to ~145M in 2020¹
 - A reduction in new vehicle sales will increase the average age of the car parc, benefiting aftermarket participants
- For 2020, the average age of all light vehicles is 11.9 years. This is the ninth straight year that the age of all light vehicles has reached or exceeded 11 years³
 - The “sweet spot” for aftermarket providers is vehicles 4 years or older
 - Vehicles aged 4 years or older now make up 81.3% of the car parc

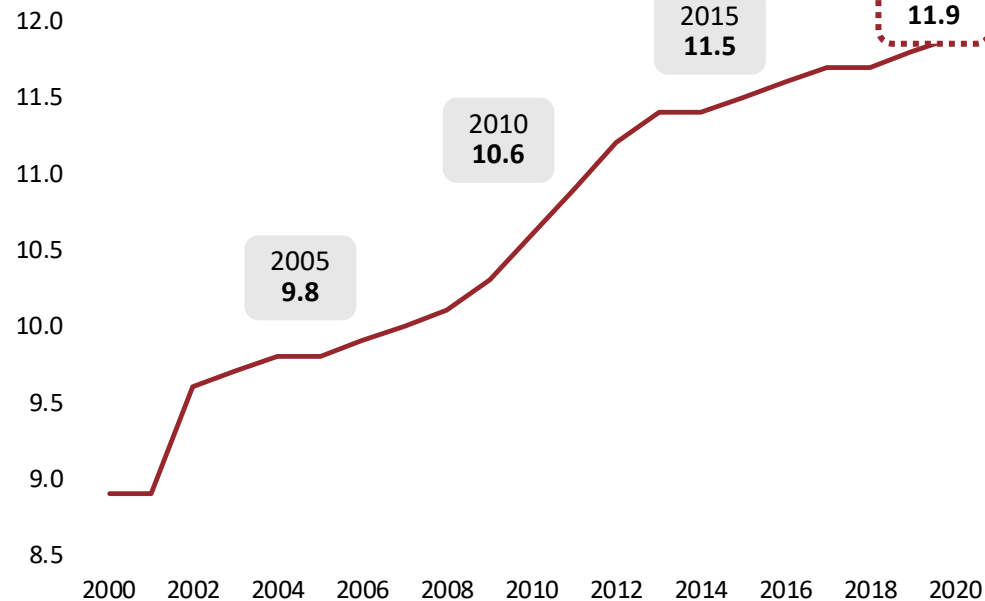
NEW VEHICLE SALES²

(units in millions)

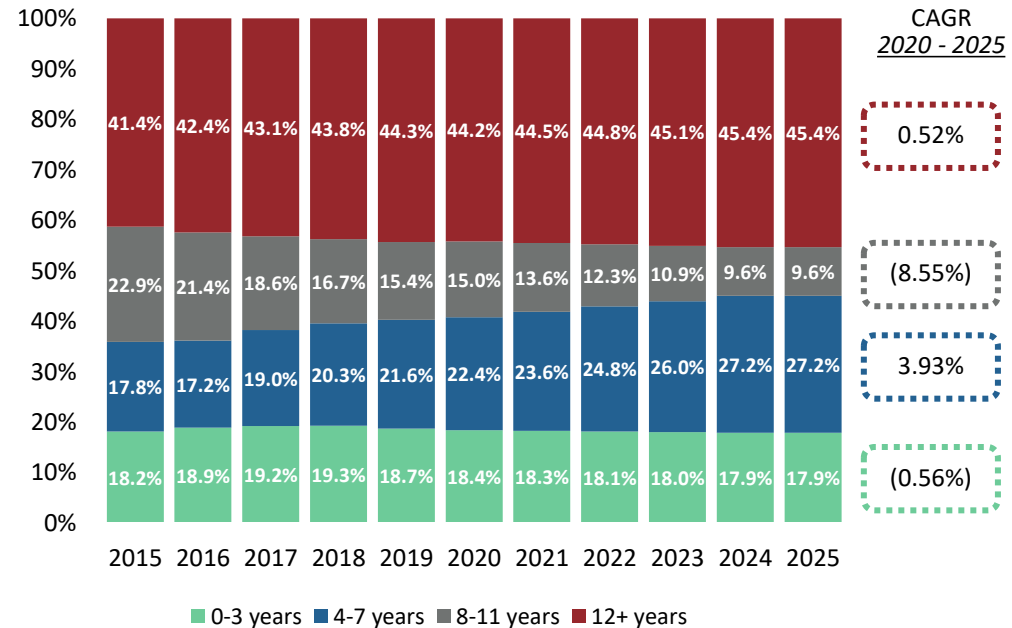


AVERAGE AGE OF THE U.S. CAR PARC⁴

(years)



AGE MIX OF THE U.S. CAR PARC⁵



1. Source: Federal Reserve Bank of St. Louis
 2. Source: ibid.
 3. Source: AAIA
 4. Source: ibid.

5. Source: ibid.

Major Takeaways from 2020

Longer-term trends and new developments emerging from the pandemic will continue to transform the automotive aftermarket



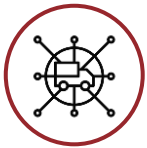
Automotive Services

- Continued consolidation across services sectors driven in large part by PE-backed consolidators looking to grow into the next wave of regional and national operators
- Operational challenges associated with difficulty attracting and retaining talent as the Baby Boomer generation continues to hit retirement age – exacerbated by the increasing technical sophistication of vehicles



Automotive Suppliers

- The cost of supply chain risk and disruption was laid bare during the initial upheaval created by the COVID-19 pandemic, with suppliers now looking for ways to build resilience into their supply chains
- Residual concerns around long-term trade friction with China have driven continued investment in nearshoring and domestic manufacturing capabilities



Automotive Distributors

- The share of aftermarket purchasing that occurs online grew exponentially with the onset of COVID-19, driving traditional brick-and-mortar distributors and retailers to invest heavily in their omni-channel infrastructure
- Service and availability continue to be winning strategies for distributors, which requires consistent investment in inventory, logistics capabilities, and technology to be successful



Automotive Enthusiast

- Prolonged stay-at-home orders and geographic dispersion from major metropolitan areas drove a wave of new consumers to enthusiast lifestyles and products in both the automotive and broader recreational sectors
- Organizations with robust digital communities thrived as historically in-person events (SEMA, automotive auctions, etc.) were forced to innovate and go online in light of COVID-19



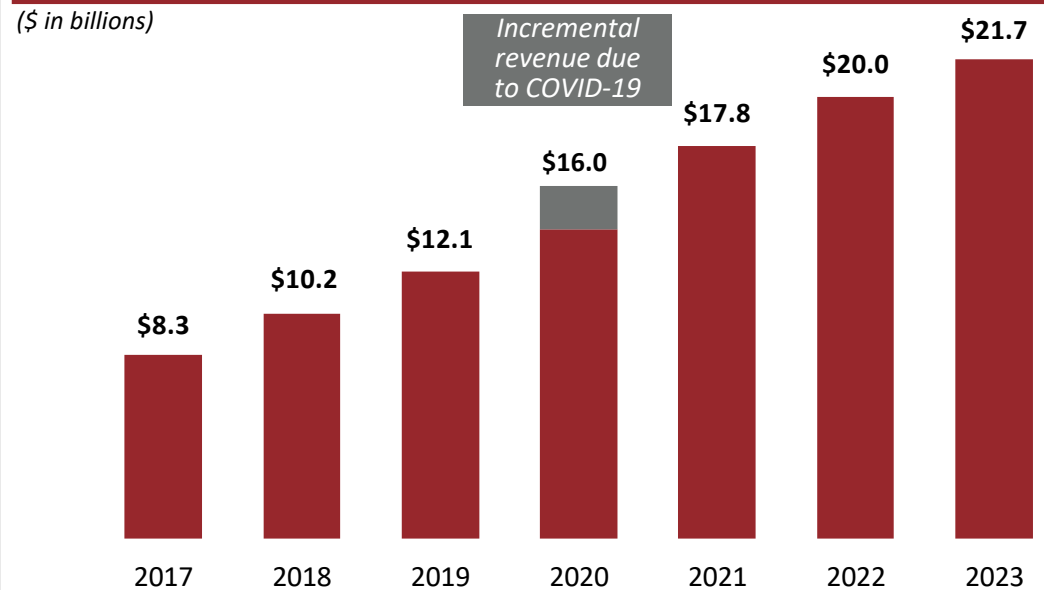
Technology & Emerging Trends

- Technological innovation continues to permeate every facet of the automotive aftermarket as companies discover new ways to exploit the increasing connectivity of the world in which we live
- Disruptive technology increasingly enters the mainstream as established players saw their public valuations skyrocket and several new entrants accessed capital through special purpose acquisition vehicles (SPACs)

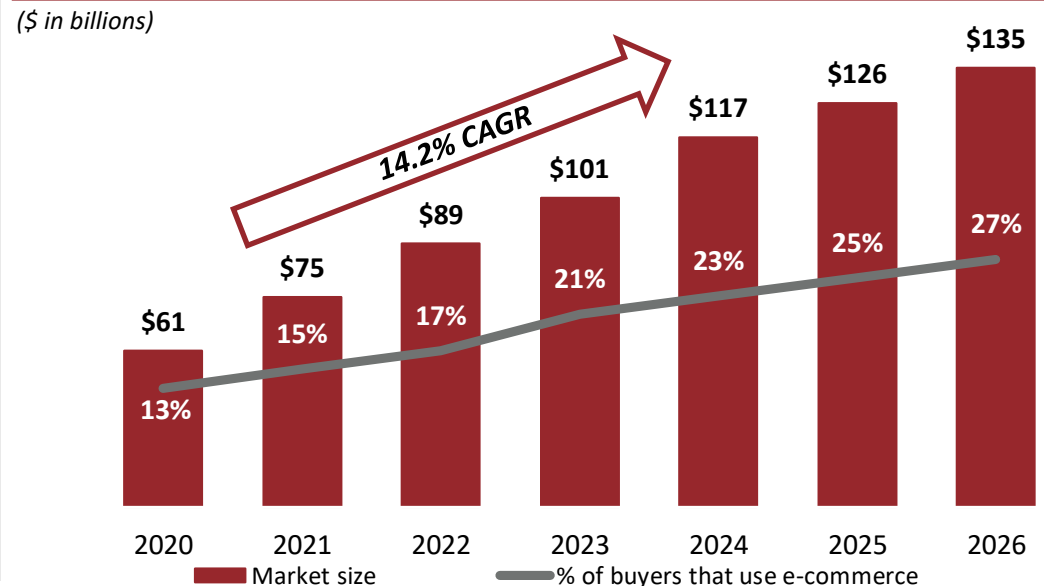
Accelerating Shift to E-commerce

- In the United States, the coronavirus pandemic shifted nearly \$2B in incremental revenue from the brick-and-mortar channels to e-commerce channels, pushing the total e-commerce spend up to \$16B¹
 - 30% increase over 2019, with the expectation to reach \$22B by 2023²
- Worldwide, the e-commerce aftermarket is expected to grow at a 14.2% CAGR, becoming a \$135B market by 2026⁵
 - Double-digit CAGRs in the North American and Asian markets⁶
 - Share of aftermarket buyers using e-commerce expected to grow from ~13% to ~25% in the next 5 years⁷
- Suppliers and distributors that capitalize on this trend will be better positioned to capture tomorrow's customer than those that remain solely brick-and-mortar

E-COMMERCE AFTERMARKET IN THE U.S.³



GLOBAL E-COMMERCE AFTERMARKET VS E-COMMERCE SHARE OF AFTERMARKET BUYERS⁴



COMPANIES TAKING ADVANTAGE OF AFTERMARKET E-COMMERCE



1. Source: Hedges & Company
 2. Source: *ibid.*
 3. Source: *ibid.*
 4. Source: *ibid.*

5. Source: Global Market Insights
 6. Source: *ibid.*
 7. Source: NPD Group

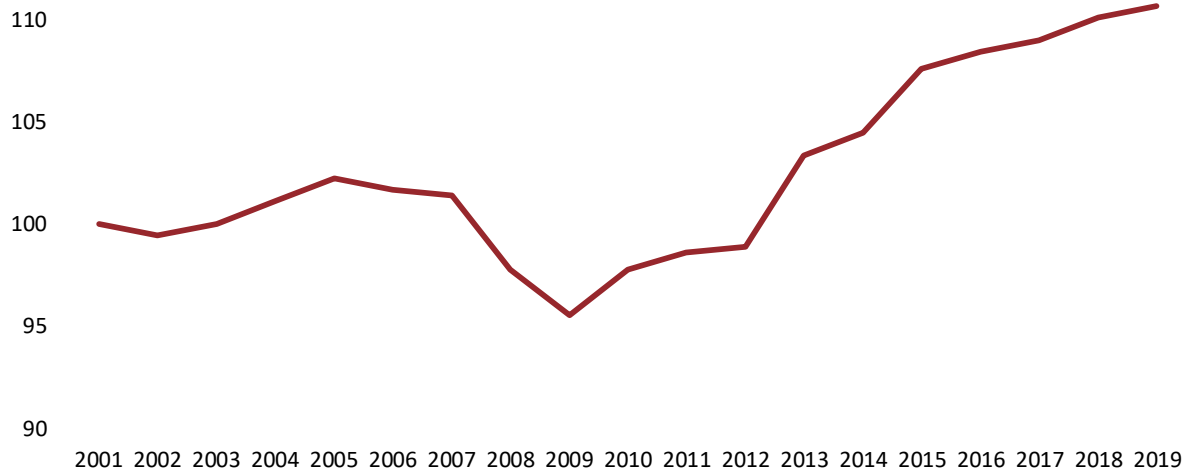
Demand for Qualified Technicians

Automotive aftermarket participants noted the biggest issue impacting their businesses is “increasing vehicle complexity emphasizing the need for professional technicians’ expertise,” second only to the average age of vehicles

- Technicians are retiring in greater numbers than they are being replaced, and this shortage is exacerbated by increased vehicle complexity that requires a higher skillset in new hires
- Historically, aftermarket repairs were focused on low-tech mechanical components where technological barriers were virtually nonexistent, but today, vehicle complexity and sophisticated electronic products have replaced simpler mechanical solutions
 - New vehicle technology is improving vehicle safety and operating efficiency with each model year, but repairing this technology requires more advanced technical skills, more expensive equipment, and additional steps in the diagnostics and repair processes
- The combination of a skilled technician labor shortage and the need for a higher skillset by technicians puts pressure on operators fighting to maintain and grow market share
 - An estimated 642,000 technicians are projected to be needed between 2020 and 2024: 400,000 automotive techs, 80,000 collision techs, and 170,000 diesel techs¹

INDEXED DEMAND FOR AUTOMOTIVE TECHNICIANS²

(Indexed to 2001)



The coronavirus pandemic accelerated a shift in the way people think about a career as an automotive technician

- The government deemed automotive services “essential” and thereby exempt from lockdowns
- TechForce Foundation surveys show an increased interest in automotive tech work among career changers who were furloughed due to the pandemic
- Over half of current high school students have exhibited an interest in a post-secondary path other than a four-year college or university³

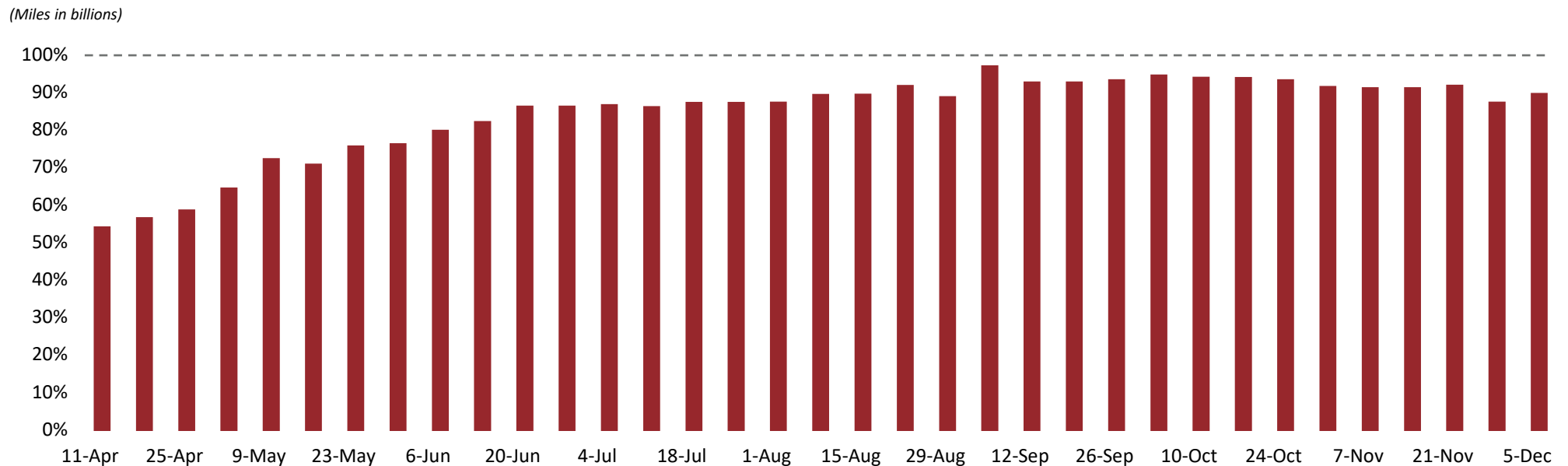
1. Source: Auto Inc.
2. Source: AAIA
3. Source: TechForce Foundation

Recent Events – Impact on Miles Driven

Miles driven has recovered to 80-90% of 2019 levels – market disruption was short lived as travel has now largely recovered and stabilized on a national level¹

- Weekly miles driven steadily increased through April and May and has stayed consistent through the summer and fall
- Recovery in miles driven has been supported by a number of trends, including:
 - Easing of stay-at-home restrictions
 - Americans returning to work
 - General quarantine fatigue
 - Holiday travel
 - Less mass transit use
 - Less air travel
 - Shift from cities to suburban and rural areas
- Although miles driven continue to be 10-20% below 2019 levels largely due to the prominence of “work from home” policies and government suggestions to limit activity outside of the home, shifting behavior could support further growth in 2021

WEEKLY VEHICLE MILES TRAVELED (VMT) VS SAME-WEEK 2019 (APRIL 2020 – DECEMBER 2020)²



1. Source: U.S. Federal Highway Administration
2. Source: ibid.

Stories to Keep an Eye on in 2021



Surging New Vehicle Sales Expected

According to the 2020 EY Mobility Consumer Index, millennials are expected to lead a car ownership boom across the globe in 2021, with nearly a third of respondents who do not own a car saying they plan to buy one in the next six months.

[Diversity Inc](#)



Fleet Management Market Set for Rapid Growth

FMI predicts that the continued pursuit of cost-cutting initiatives by fleet operators coupled with the accelerating penetration of affordable active monitoring systems will fuel a rapid growth in the fleet management market over the coming years.

[Future Market Insights](#)



Increasing Importance of OEM Certifications

State Farm recently announced their plan to show DRP shop certifications for individual repairers, a move that USAA and Liberty Mutual may be supportive of as well; look for increasing representation of OE certifications by repair shop networks in 2021.

[Repairer Driven News](#)



Electric Mobility After the Crisis

While long-term market share gain remains likely, the near-term forecast for EV demand in the U.S. has been revised down from pre-COVID 19 projections as consumers have opted for ICE vehicles with broader functionality at a lower price point than the current offering of EVs.

[McKinsey](#)



Strong Fundamentals for Electronics & Software

McKinsey & Company predicts that the size of the automotive software and electrical component market will nearly double over the next decade, driven by outsized growth across sensors, software, integration services and power electronics.

[McKinsey](#)



Right-to-Repair Laws Benefit Independent Repair Shops

In November, Massachusetts passed a proposition allowing independent repair shops the same access as dealers to vehicle information that's used to diagnose and repair problems, a win for independent repair shops, competitive pricing pressure, and consumers.

[Next City](#)

Expertise Across the Automotive Aftermarket

Harris Williams remains active across all sub-sectors of the automotive aftermarket

AUTOMOTIVE SERVICES



Service providers addressing industry and consumer needs throughout the vehicle lifecycle

has been acquired by	has been acquired by

has been acquired by	has been acquired by

AUTOMOTIVE SUPPLIERS



Vehicles, parts, tools, accessories and chemical/additive manufacturers supplying the full range of aftermarket and original equipment customers

has been acquired by	has been acquired by

has been acquired by	has been acquired by

AUTOMOTIVE DISTRIBUTORS



Brick-and-mortar and e-commerce distributors that ensure the universe of automotive products are readily available to a broad customer base

has been acquired by	has been acquired by

has merged with	has been acquired by
in a recapitalization by	
<small>COBIS MANAGEMENT SERVICES, L.L.C.</small>	

AUTOMOTIVE ENTHUSIAST



Specialized automotive products, brands, and services providing tailored, high-end offerings for the lucrative enthusiast market

has been acquired by	has been acquired by

has been acquired by	has been acquired by

AUTOMOTIVE TECHNOLOGY



Cutting-edge manufacturers and software/service providers driving the next generation of automotive technology

has been acquired by	has been acquired by

has received a growth investment from	has been acquired by

Ways to Play

There are many ways to participate in the automotive aftermarket in any economic environment



SERVICES

- General repair, tire, car wash, collision
- Regional/local platforms
- High fragmentation creates opportunity for consolidation

Platform Attributes

- ✓ Attractive organic growth
- ✓ Leverageable fixed cost base
- ✓ Purchasing power
- ✓ Highly accretive M&A

Representative Companies



SUPPLIERS

- Category-leading products often with strong brands
- Extend market opportunity
- More products through customer cross-sell opportunity

Platform Attributes

- ✓ Attractive organic growth
- ✓ Growing addressable market
- ✓ Highly accretive M&A

Representative Companies



DISTRIBUTORS

- Replacement parts
- Regional/local platforms
- High fragmentation creates opportunity for consolidation

Platform Attributes

- ✓ Attractive organic growth
- ✓ Leverageable fixed cost base
- ✓ Purchasing power
- ✓ Highly accretive M&A

Representative Companies



ENTHUSIAST

- Performance enhancing parts
- Aesthetic improvements
- Lifestyle accessories
- Off-highway platforms

Platform Attributes

- ✓ Differential product offerings
- ✓ Loyal enthusiast following
- ✓ Brand recognition
- ✓ Highly stable demand

Representative Companies



TECHNOLOGY

- Disruptive technology
- Enhanced operational capabilities for users
- Precision manufacturing

Platform Attributes

- ✓ Market leadership
- ✓ Impressive growth prospects
- ✓ Prospective valuations

Representative Companies



Another Banner Year for the HW Automotive Aftermarket Team

HW saw significant interest in the automotive aftermarket sector throughout 2020 despite COVID-19 disruptions and expects this momentum to accelerate through 2021



a portfolio company of
THE JORDAN COMPANY
has been acquired by
KOHLBERG
& COMPANY

Closed October 2020



a portfolio company of
BRS
has been acquired by
Holley

Closed November 2020



a portfolio company of
THE STERLING GROUP
has been acquired by
PRITZKER
PRIVATE CAPITAL

Closed November 2020




a portfolio company of
CenterOak
PARTNERS
has been acquired by
MID OCEAN
Partners

Closed November 2020



a portfolio company of
INCLINE
EQUITY PARTNERS
has been acquired by
H. I. G.
CAPITAL

Closed January 2021



has received a growth
equity investment from
LNC
PARTNERS

Closed February 2021

WHAT WE PROMISED, WE DELIVERED

- ✓ **Senior Attention** – Senior bankers led each deal and managed the day-to-day operations from start to finish
- ✓ **Deep Buyer Relationships** – We knew the best buyers for each client and how to effectively “set the hook”
- ✓ **Trusted Reputation** – We are known for representing only the highest quality companies and treating buyers fairly, which maximizes buyer engagement
- ✓ **Hustle** – Despite the work-from-home environment and travel restrictions, we continued to focus on premier client service and execution excellence through “sweating the details”



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