



REFLECTIONS & OUTLOOK

48th ANNUAL AUTOMOTIVE SYMPOSIUM

November 4 – November 5, 2024

PRESENTING COMPANIES

<u>Company</u>	<u>Exchange</u>	<u>Ticker</u>	Nov. 4		
			2024 Price	2023 Price	2022 Price (a)
AutoNation Inc.	NYSE	AN	\$ 159.34	\$ 139.96	\$ 106.15
AutoZone, Inc.	"	AZO	3,046.35	2,574.54	2,465.10
CarParts.com	NASDAQ	PRTS	0.93	3.13	4.57
Dana, Inc.	NYSE	DAN	7.63	11.79	15.53
Donaldson Company, Inc.	"	DCI	74.37	58.70	56.78
Garrett Motion	NASDAQ	GTX	7.34	7.46	7.51
Gentex Corp.	"	GNTX	30.09	29.63	25.84
Genuine Parts Co.	NYSE	GPC	116.05	130.32	169.31
Monro, Inc.	NASDAQ	MNRO	27.65	25.79	42.94
Motorcar Parts of America, Inc.	"	MPAA	5.38	7.67	18.88
MP Materials Corp.	NYSE	MP	18.25	16.42	31.58
Myers Industries	"	MYE	11.71	17.38	19.79
NN, Inc.	NASDAQ	NNBR	3.41	2.00	2.01
O'Reilly Automotive	"	ORLY	1,157.56	952.84	815.74
Penske Automotive Group, Inc.	NYSE	PAG	150.57	151.35	105.20
PHINIA, Inc.	"	PHIN	45.25	56.00*	
Rush Enterprises, Inc.	NASDAQ	RUSHA	57.92	37.39	31.59
Standard Motor Products, Inc.	NYSE	SMP	32.11	34.40	34.18
Strattec Security Corporation	NASDAQ	STRT	37.03	22.75	30.40

(a) Adjusted for splits and dividends

* PHIN was spun off from BorgWarner on July 3, 2023 and began trading on July 5, 2023 at \$56.00 per share.

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-Please Refer To Important Disclosures On The Last Page Of This White Paper-



48TH ANNUAL AUTOMOTIVE SYMPOSIUM

Our team hosted the Gabelli Funds 48th Annual Automotive Aftermarket Symposium in Las Vegas on November 4th and 5th, 2024. Over the course of the conference, industry executives from leading automotive original equipment dealers, suppliers and aftermarket parts retailers discussed both the present and future of the automotive ecosystem.



Brian Sponheimer is a Senior Vice President and Portfolio Manager at Gabelli Funds. He leads the Industrials research team as well, with a focus on automotive- and machinery-related companies. Before joining the firm in 2008, he was a research analyst at The Water Fund/Terrapin Partners and before that various positions within sales and trading of US Equities at CIBC World Markets.

Brian graduated cum laude with a BA in government from Harvard University and holds an MBA from Columbia Business School.



A. Carolina Jolly, CFA, is a senior research analyst covering industrials and materials sectors with a focus on the automotive industry. She joined the firm 2015. Prior to that she was a senior research analyst and impact investing specialist at Glenmede Investment Management.

An industry expert, Carolina has been quoted in several publications, including the Financial Times and Barron's.

Carolina holds a BA in economics from Williams College and an MBA in finance and entrepreneurial management from Wharton School at the University of Pennsylvania. She is a CFA charterholder.



REFLECTIONS

2024 GABELLI FUNDS AUTO SYMPOSIUM

INNOVATION IS THE FUTURE, DELIVERED

Gathering together at Encore at Wynn, a leading group of over 20 automotive companies and their managements offered commentary and insights on the challenges of today and the opportunities of tomorrow at our 48th annual automotive symposium. Held each year just before the AAPEX (Automotive Aftermarket Products Expo) and SEMA (Specialty Equipment Manufacturers Association) industry events, our conference brought together a unique assortment of companies within the broader automotive ecosystem to help attendees better understand the drivers of profitable growth ahead for this great industry.

The conference, which is perhaps the only financial services symposium offering a true “Cradle-to-Grave” look at the automotive world, offered valuable color on how near and long-term variables may impact the 290 million cars on the road in the US along with the 1.3 billion that travel the world on a global level.

A recurring message among our presenting managements this year is one of flexibility. Changing dynamics regarding customer demand for electric vehicles in the US, coupled with rapidly changing production schedules to light commercial and off highway markets and consumer dynamics within the auto aftermarket led nearly all of our speakers to discuss their need to be nimble and agile to adjust to potentially shifting sands.

We left the symposium confident that presenting managements overseeing companies that have endured throughout the five decades of our conference in Las Vegas would be able to not only react well to market dynamics, but to position their companies to thrive as they adjust to more abrupt changes within the industry and to prepare for longer-term items impacting their companies.

This reflections piece attempts to capture the spirit of our symposium, initially with key analyst takeaways summarizing the two days. The report then delves into industry-specific data to frame the environment in which our companies operate. We conclude with takeaways on the companies themselves.

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AUTO SYMPOSIUM REFLECTIONS

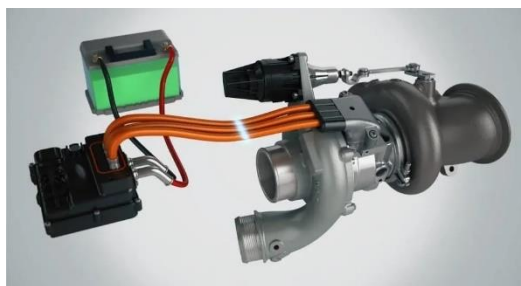
Conference Highlights

FLEXIBILITY DRIVES MARKET DOMINANCE

Similar to a year ago, challenges related to inflation and interest rates, labor, Geopolitical tensions and the potential for tariff impacts were on the minds of investors and companies in Las Vegas. Presenting managements were nearly unanimous in their commentary regarding the need to be flexible in meeting any obstacles facing their companies, helping drive long-term innovation and reinvention to improve market position and ultimately shareholder value.

We highlight below some of the major topics discussed, along with our thoughts on the future as the industry works through near term challenges with innovation and reinvention.

Exhibit 1 Garrett Motion (GTX) Electric Turbocharger



Source: Garrett Motion

- **AFTERMARKET GROWTH CONTINUES WITH MIX SHIFT**

- Technological advancements and complexity in the auto market are driving aftermarket value. Companies that have invested in distribution, technology and data appear to be taking share from those that have not or cannot. These companies will benefit from the continued consolidation of the market, while others will lose. Despite a weak consumer, those companies that have invested over the last few years continue to take share and post positive results as the aftermarket is mostly generated from non-discretionary demand.

- **ELECTRIC AGE MAY TAKE A LITTLE LONGER TO COME**

- Regarding electrification, suppliers and dealers continue to contend with a market in the United States where growth has stalled due to several issues including affordability and the rollout of charging infrastructure. While global adoption persists, stakeholders are universally adjusting their operations as they look to thrive regardless of the propulsion adoption curve.

- **PENT UP DEMAND PROVIDING A FLOOR FOR NEW VEHICLE SALES DESPITE RATE INCREASES**

- Within the United States, sales rates have hovered near a 16-million-unit annual pace. While increases in average selling prices, coupled with increases in interest rates and declines in used vehicle prices have negatively impacted consumers, lower unit sales from 2020 to 2022 have created pent up demand that currently provides a foundation for new car sales in the US.

- **INVENTORY REACHES CRITICAL BEHAVIORAL LEVEL**

- Inventory was a topic discussed at length in Las Vegas as the number of vehicles on dealer lots in the United States has grown to 2.9 million from 1.7 million a year ago. Still below the 3.7 million units of March 2020, the steady rise in inventory led to some dislocations between supply and demand on certain products, forcing auto makers such as Stellantis to cut production and resort to increasing incentives in order to more closely bring inventory in line with broader demand.

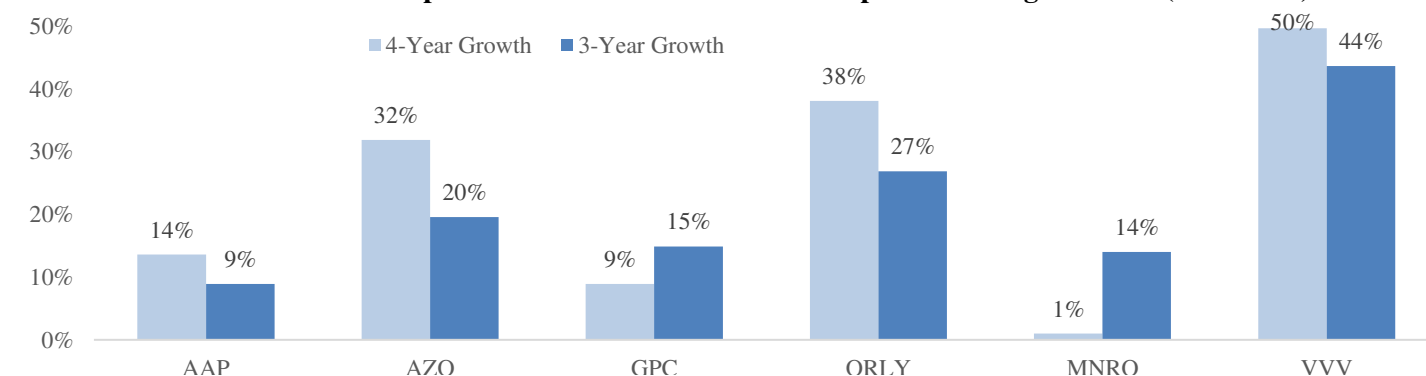
AUTOMOTIVE AFTERMARKET OUTLOOK

INTRODUCTION: DRIVING IS NOT GOING AWAY ANYTIME SOON

Prior to the COVID-19 pandemic, questions on self-driving electric vehicles permeated throughout earnings calls. And, when in April 2020, miles driven dropped 40% and COVID-19 spread throughout the US, investors panicked asking if we would be returning to the road. However, what we learned at Gabelli's 48th Annual Automotive Symposium is: *The best value is aftermarket value. And consumers are looking for value now.*

The industry benefits from the relative value of maintaining and repairing one's personal vehicle vs other options. Buying a used/new vehicle remains expensive, dealerships have long wait times and provide services at +30-50% of the price, and there are few alternatives to getting to work for the vast majority of North Americans. Thus, as consumers felt pricing pressure throughout their lives, they continued to work on their vehicle. After four years of growth in the \$300 billion aftermarket where public aftermarket companies averaged ~25% growth rates from 2020-2023 (Exhibit 2), 2024 experienced some moderation of same-store-trends (Exhibit 3). However, relative to other retailing industries, high quality companies continued to post positive results as consumers saw the value in maintaining their vehicle. The pullback remained in discretionary categories, where companies like AZO experienced negative 5% headwinds, vs the up mid single digit growth in DIFM, hard part and repair categories.

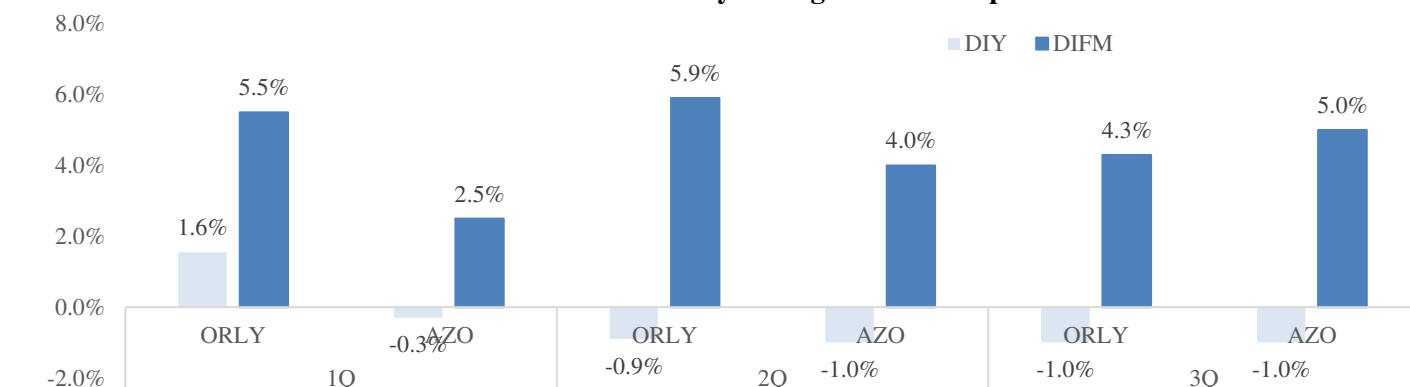
Exhibit 2 3 & 4-Year Comp Rates of Public Aftermarket companies Average 20-25% (2020-2023)



Source: Company filings

Previous periods of deferral indicate the potential for a strong rebound post periods of consumer pressure. This section delves into the resiliency of the aftermarket, factors that are driving continued growth and explanations as to why owners of vehicles are keeping and maintaining their vehicles longer. We explore the catalysts behind the significant growth patterns in 2020-2023, positive, but moderating, growth in 2024, and the potential for a 2025/2026 rebound. We use data to better understand the essential nature of the aftermarket.

Exhibit 3 DIY customer and Discretionary a Drag on 2024 comps



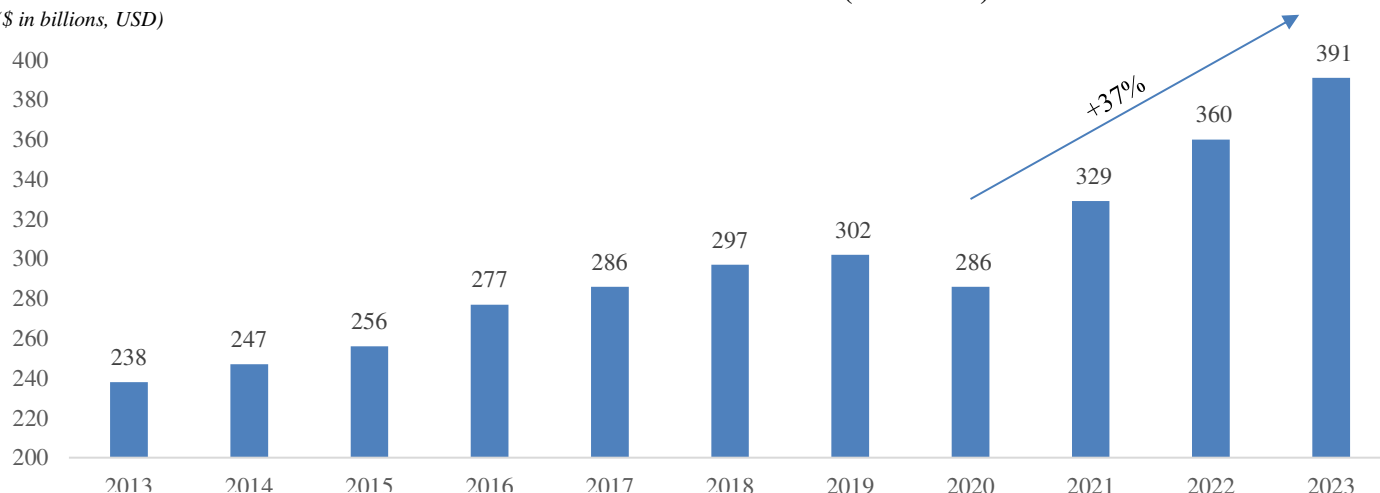
Source: Company filings

A REVIEW OF INDUSTRY BASICS

The Automotive Aftermarket Suppliers Association (AASA) projects that the \$391 billion light vehicle aftermarket will grow to \$435 billion by 2026. Demand fell in 2020 to \$286 million in response to a COVID-19 related decline in miles driven; however, have since rebounded by 37% to \$391 million in 2023 and is expected to grow +10% over the next 3 years.

Exhibit 4 The US LV Aftermarket Continues to Grow (2013-2023)

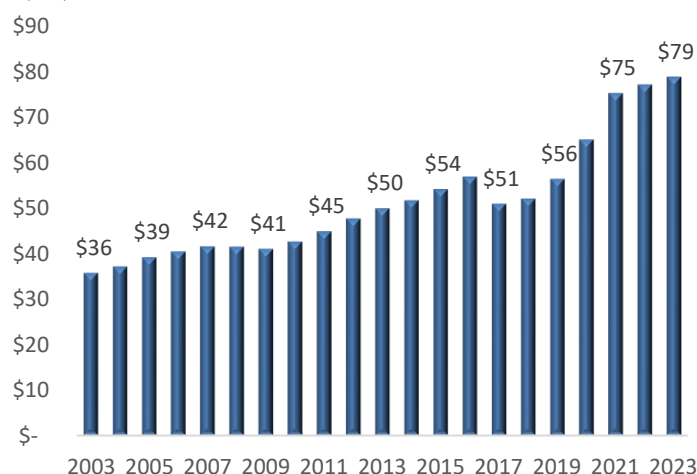
(\$ in billions, USD)



Source: MEMA/AASA

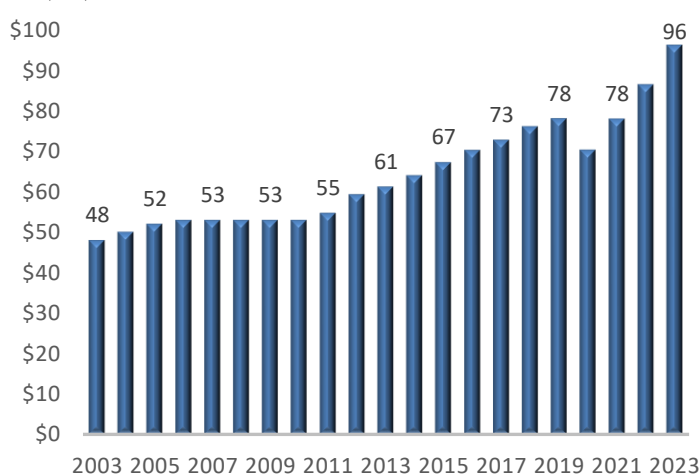
We estimate that parts account for ~\$219 billion of the aftermarket after excluding tires and labor. Parts sales are divided into two segments: commercial “do-it-for-me” (DIFM) and retail “do-it-yourself” (DIY). Specific to the Big 4, it is estimated that ~\$150-\$160 billion would be considered the addressable market. Using wholesale dollars the DIFM parts market is ~20% larger than the DIY market, despite the 2020/2021 COVID-related jump in DIY sales (Exhibits 5 & 6). According to the AASA, complexity, changing consumer demand, and telematics will drive DIFM market share over the next several years.

Exhibit 5 DIY Market Size (\$B) 2002-2023



Source: ORLY Presentation, ACA Factbook

Exhibit 6 DIFM Market Size, ex-Labor (\$B) 2002-2023



McKinsey has estimated that the global aftermarket can grow to \$2.7 trillion in 2030, from ~\$740 billion, driven by new technology.

AFTERMARKET ECOSYSTEM

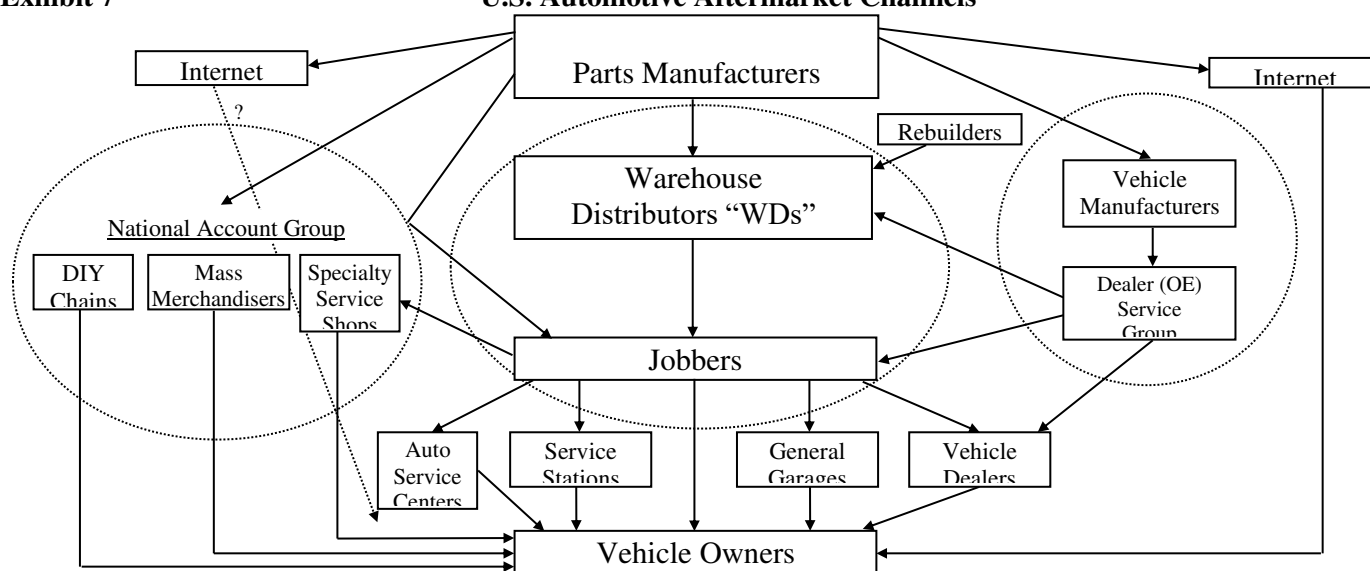
There are approximately 290 million light vehicles on the road in the US operated by ~240 million licensed drivers. The aftermarket is comprised of the replacement parts and labor that keep these vehicles operating after the initial sale. Servicing those vehicles are individuals working on their own cars (DIY), 130,000 repair outlets, and 100,000 gas stations that also do repair work. Roughly 600 warehouse distributors and 37,000 parts stores provide components to this fragmented buyer population. Over 1,000 aftermarket parts suppliers exist in North America, with tens of thousands of other manufacturers located in low-cost countries around the world.

The traditional or “three-step” parts distribution system consists of the warehouse distributor (WD), the jobber, and the end-user or installer (Exhibit 7). The leaders amongst WDs and jobbers continue to be NAPA (Genuine Parts), CARQUEST (part of Advance Auto Parts), and O’Reilly Automotive. The largest service chains include Midas, Jiffy Lube, and Monro Muffler Brake (MNRO). While the three-step system produces lower margins for distributors, this system remains efficient and provides the broadest range of parts deliverable within the shortest amount of time. The ability of new forms of distribution to gain share, most notably e-commerce, will depend on the ability to meet required delivery speeds of 30-45 minutes after an order is received.

In the retail “two-step” system, parts are distributed *directly* through consumer accessible chain stores, the largest of which are AutoZone, Advance Auto Parts, and O’Reilly Automotive, as well general retailers such Costco and Wal-Mart. In this system, the DIY chain or retailer acts as both distributor and retailer (Exhibit 7). In the OE Service “two-step” system, part suppliers ship products to a dealer service group (e.g. Ford or Toyota), which typically warehouses the product and ships it off to franchised vehicle dealers and other repair operations.

Exhibit 7

U.S. Automotive Aftermarket Channels



Source: Gabelli Funds

Amazon has invested in the automotive aftermarket. While it will take massive investment to build out the necessary inventory and distribution, the ~\$300 billion aftermarket parts industry is one of the largest retailing segments in which Amazon does not have significant share. Traditional e-commerce competitors such as US Auto Parts, have utilized both distribution systems, either going direct to the consumer, or through a WD or jobber/retailer which is a much lower margin business. Previously, these competitors have not achieved the same distribution proximity, and therefore delivery speeds, as brick-and-mortar competitors. AMZN has instituted a platform to go directly to the installer base, wherein the consumer buys on AMZN and connects with a local repair shop via the site. We have seen little traction on these types of platforms. However, in China, Alibaba’s purchase into CarZone and QCCR, and establishment of New Carzone, integrated the whole supply chain. E-commerce integration in this market seems to be more effective than North American attempts.

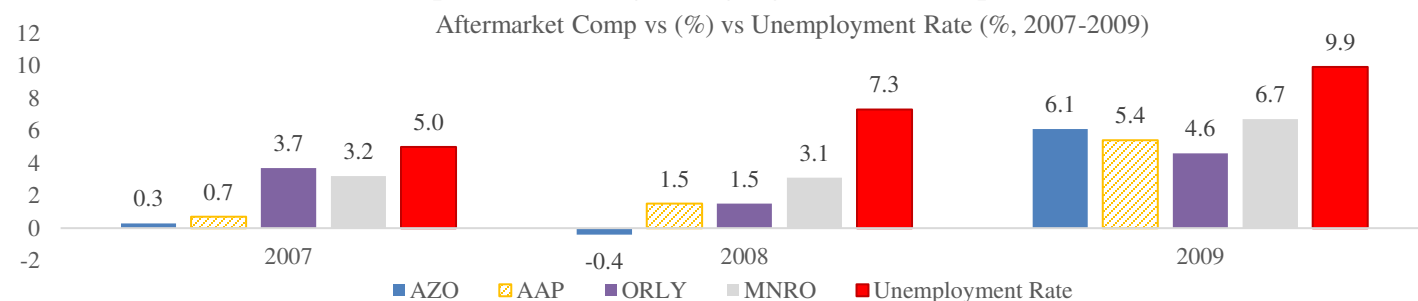
AFTERMARKET DRIVERS

The automotive aftermarket is traditionally driven by four primary dynamics: 1) the number of vehicles on the road; 2) the age of the vehicle population; 3) employment and wage growth; and 4) the number of miles driven by consumers. On average, aftermarket growth has ranged between 1-4% over the past thirty years, proving to be recession resistant.

Recession Resistant – Aftermarket Posts Strong Comp in 2009 Amidst ~10% Unemployment

The aftermarket is resistant to recessionary pressures. This is best exemplified by the average 5.7% comp posted in 2009 when unemployment reached 9.9% (Exhibit 8). While we do not know what 2025 will bring, we believe that the current pull-back in aftermarket spend (post accelerate growth in response to stimulus packages) should be met with a solid rebound.

Exhibit 8 Aftermarket comps remain strong during high rates of unemployment (2007-2009)



Source: Company filings, Bureau of Labor Statistics

More Vehicles on the Road –Trend Towards Personal Vehicles & Maintenance

U.S. Vehicles in Operation (VIO) grew consistently over the last ten years (Exhibit 9) driven by an improving economy that bolstered new vehicle sales and manufacturing quality that reduced scrappage rates (4.6%). The AASA expects VIO to grow to 300 million by 2035, up +5%, driven by suburbanization (the average rural household owns 2.5 cars vs the average urban household which averages 1.8), higher quality parts that keep vehicles on the road longer, and new household formation (as the percentage of young adults living with a parent declines from 52%) – adding to both the front end of the curve (new vehicle sales) and the tail (maintaining older vehicles). In 2023/2024, low new vehicle supply and high used vehicle prices should continue to drive the tail-end of the curve as owners are forced to invest in maintaining vehicles longer.

Exhibit 9 US Light Vehicle Population 2011-2023E

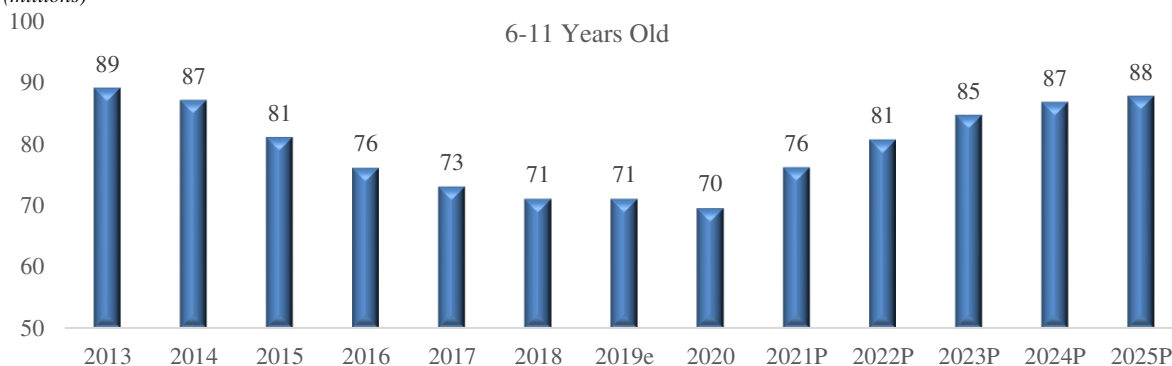


Source: AASA, Experian

However, starting in 2026, the aftermarket ‘sweet spot,’ or those aged 6-11 years, will see decelerating growth. VIO in the sweet spot fell from 81 million in 2015 to 70 million in 2020. This is due to lower vehicle sales during 2008-2011 (the Great Recession) that entered the aftermarket at lower rates than previous model years. This “air pocket” is expected to reverse to 88 million through 2025 (Exhibit 10). While we experienced much of this growth through 2024, flat sales in 2015-2018 will not drive similar growth rates post 2025. Higher quality parts that keep vehicles on the road for longer should mitigate some of this potential deceleration.

Exhibit 10
(millions)

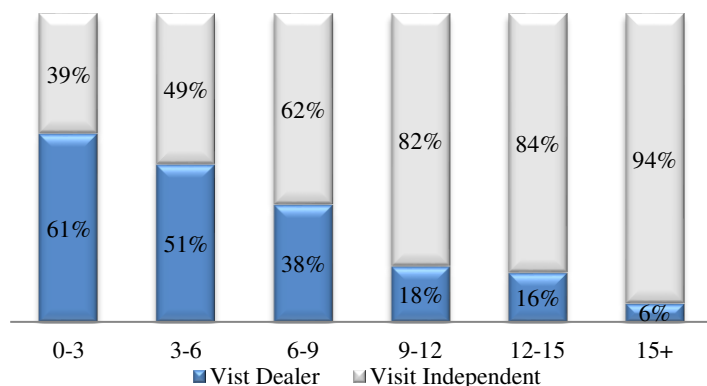
Number of Vehicles in Sweet Spot 2013-2025P



Source: AASA, IHS Markit

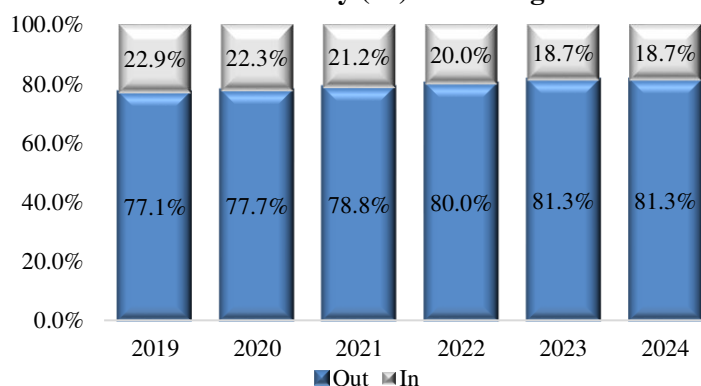
Further, industry data specialists have always highlighted that one of the most important indicators of aftermarket growth includes the number of vehicles on the road outside of warranty. As vehicles age, owners are less likely to bring cars to dealers for service (Exhibit 11) as: 1) OE warranties only cover work earlier in the life of a vehicle; and 2) owners of older cars tend to be more price sensitive and look for lower cost work provided by independent service chains. Recent data shows that the number of vehicles out of warranty are down to 18.7% of the vehicle parc in 2024 from 22.9% 5 years ago (Exhibit 12). A 400 bps change across the entire parc would indicate ~12 million vehicles that could now switch to the aftermarket at a considerable price advantage. Further the value of this repair is up 20% over the last 4 years, which should bode well as these cars, and repairs, enter the aftermarket. This positive trend for the aftermarket should drive additional demand on top of the growing and aging vehicle base.

Exhibit 11 Vehicle owners trend towards aftermarket



Source: Automotive Aftermarket Suppliers Association

Exhibit 12 Out of warranty (%) increasing



Source: Automotive Aftermarket Suppliers Association

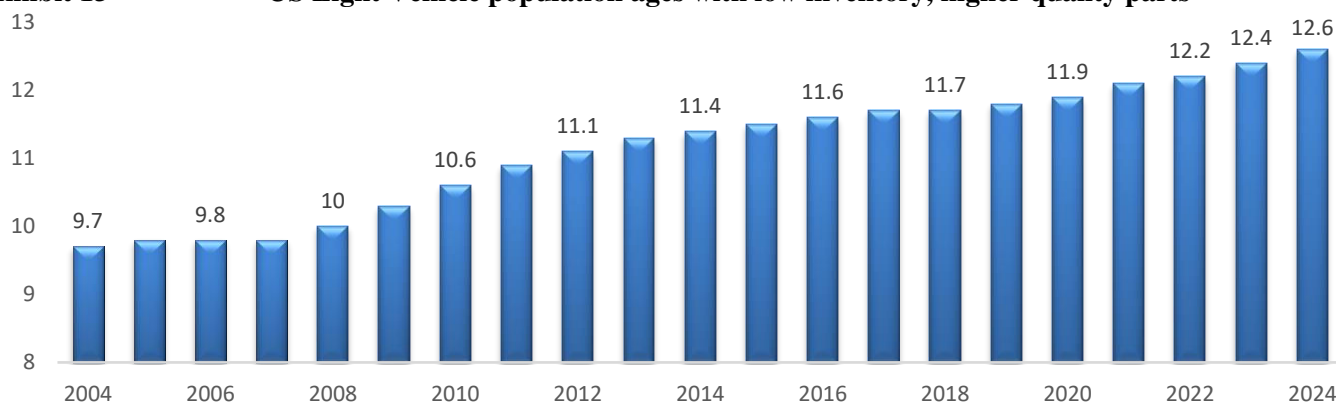
Previously, it was hypothesized that dealers would take share as the increasing use of technology created cybersecurity issues that could lock out aftermarket parts suppliers due to OBD-II (on-board diagnostic standards) access restrictions, making it more difficult to reverse engineer these parts. However, Massachusetts passed the pro-aftermarket “right to repair” measure in 2021, which enables aftermarket providers access to vehicle data for the purpose of service and repair. Federal regulation supporting the aftermarket is expected to follow. This reduces any risk that only dealers will have access to telematics and data within the car.

Going forward, we believe that dealers and large repair chains will take share due to the increasingly large investment required to repair complex vehicles, train technicians, and optimize telematics/data. Complexity in parts is raising costs of doing business, providing an advantage for larger organizations, including both dealers and large repair chains that have the diagnostic and tool capability to complete these jobs. The question will be whether these shops can leverage the topline growth as costs rise.

Vehicle Age Drives Aftermarket Growth

The average age of a car on the road has grown to 12.5 from under 10 over the last 20 years (Exhibit 13). As owners are able to drive vehicles longer, they are more willing to invest in repair and replacement of parts. We believe this additional investment has effectively expanded the age range of the “sweet spot,” or age in which the owner sees value in repairs. An older vehicle parc bolsters the sale of alternators, starters, brake calipers, and brake master cylinders, as these parts are generally only replaced later in a vehicle’s life. Higher numbers of replacement jobs generate more aftermarket demand as service providers diagnose ancillary problems in these older vehicles. Further, in response to recent higher costs pressuring consumers, historic lows in new/used vehicle supply, and high new/used vehicle prices, many consumers have decided to maintain their vehicles longer. Both of these recent and historical trends should drive aftermarket age and replacement demand.

Exhibit 13 US Light Vehicle population ages with low inventory, higher quality parts

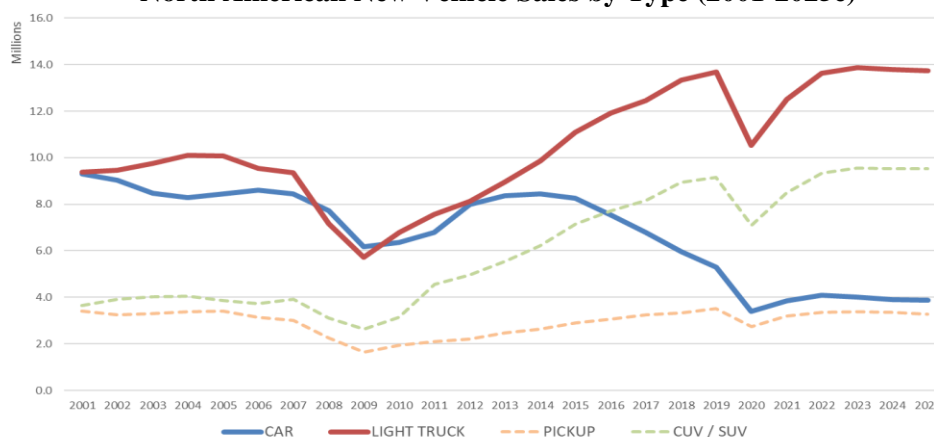


Source: AASA, IHS Markit

Larger vehicles drives aftermarket growth

North Americans have shifted to larger vehicles over the last 20 years which drives aftermarket demand. Light trucks went from ~50% of sales in 2013 to ~80% in 2023. Larger vehicles tend to require more repair dollars with a mid-size crossover costing 12.5% more per mile repair and maintenance cost than a small car.

Exhibit 14 North American New Vehicle Sales by Type (2001-2025e)



Source: AASA, IHS Markit

Miles Driven to Grow: Need for Personal Vehicles, Suburbanization, and Return to Work

Miles driven (outside of warranty) is a historic indicator of broader vehicle wear and tear. However, from the beginning of the COVID pandemic, there was a clear spread between miles driven and aftermarket demand. We attributed this to: 1) owners of older vehicles tended to be essential workers who continued to drive; and 2) stimulus dollars supported low-income consumers in 2020/2021 who were more likely to own older vehicles. The data backs these theories. Previously declining categories tailored to 12+ year old vehicles grew during this period. Secondly, total spending by lower-income consumers did not change in 2020 relative to down 7% for higher income consumers. This allowed for investment in keeping older vehicles on the road while the costs of buying used/new vehicles was high. Further, appearance and performance categories significantly outperformed in 2020/2021. These products are not tied to miles driven, but an indication of time, money and interest by the end consumer.

Miles driven have returned to pre-COVID levels (Exhibit 15) of 3.3 trillion. Going forward, suburbanization (partially in response to COVID and age demographics), a return to work trend, and shared mobility should support continued growth.

Suburbanization: As people move to the suburbs, they own 2.5 cars on average vs 1.8 in urban areas. These people also need to drive more with less access to public transportation. National monthly transit ridership is down 30% from pre-COVID levels to 613 million as appeal and capacity have declined, and potentially in response to this de-urbanization.

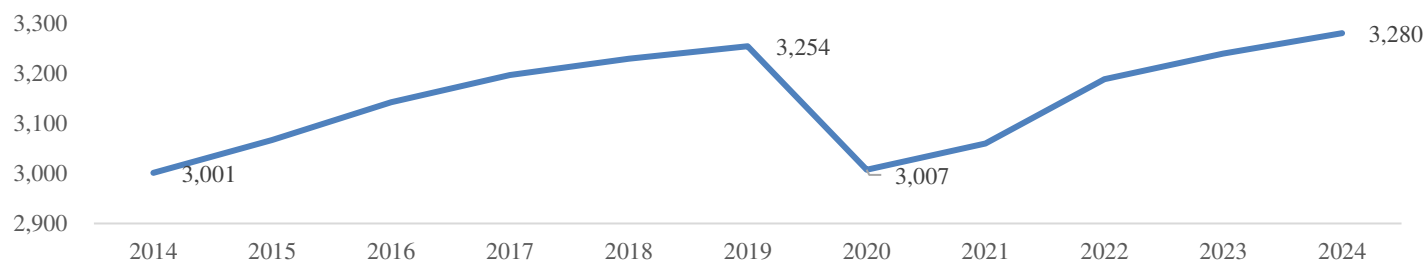
Return to work. According to KPMG, only 60% of CEOs were predicting a full return to office over the next 3 years in 2023, while in 2024, 85% are predicting a full return to the office. With increasing pressure to go back to the office, work-related miles driven may rebound while discretionary trips continue to grow.

Shared mobility (Uber and Lyft) appears to be adding to miles driven. For example, Transport Policy estimated that ride hailing increased vehicle miles driven of users by 114% in NYC and UC Davis noted that 49-61% of ride-hailing trips would not have been made at all, or by walking, biking or transit.

Exhibit 15

U.S. Vehicle Miles Driven (2013 -2023)

(billions)



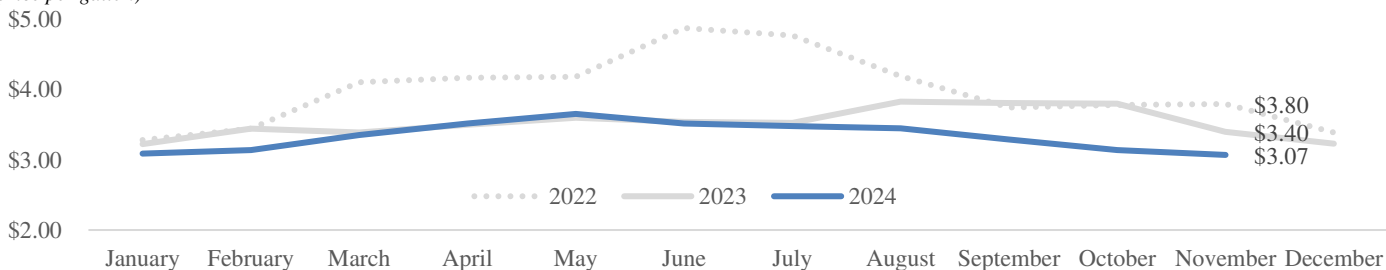
Source: US Department of Transportation Federal Highway Admin

Gas prices now average \$3.07 below \$3.40 from a year ago and below highs of \$4.87 in 2022. While prices had dipped to the \$2-\$2.50 range in 2020, we believe that gas prices that average ~\$3.00 should support consumer demand, with limited pressure on discretionary trips. As previously noted, most of the US has little substitute for driving one's own vehicle. As gas prices increased past \$3.50 in 2022, attendees had noted potential pressure in response to a quick increase in price more than the level.

Exhibit 16

U.S. On Highway Gas Prices

(price per gallon)



Source: eia.com

NEW TECHNOLOGIES PROVIDE SIGNIFICANT OPPORTUNITY

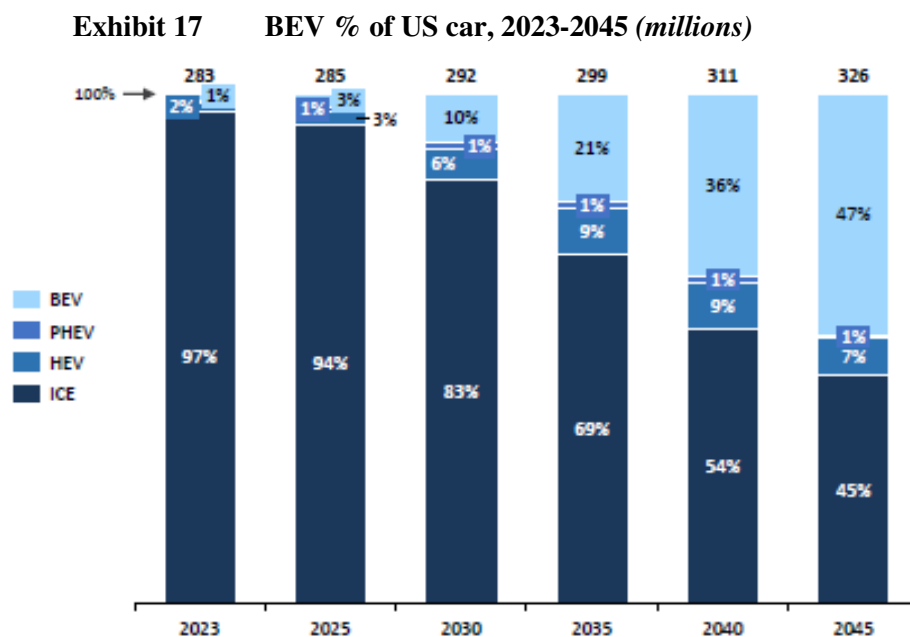
The impacts of future electric vehicle penetration is unknown; however, the industry has shown that the adoption of CASE technology (Connected, Automated, Shared and Electrified) has created profit opportunities. More newly designed parts, the redesign of existing replacement parts, complex, higher priced repairs, and increased miles driven should drive growth. McKinsey estimates that shared mobility, data connectivity and upgrade services will lead to a \$2.7 trillion global aftermarket in 2030 vs. \$740 billion in 2016. However, those that cannot invest will most likely lose share.

Electric Vehicle Penetration a Disruptor and a Catalyst

As electric vehicles increase as a percentage of new car sales, questions around the rapidity of penetration of the car parc and impacts on the aftermarket remain. However, the transition towards “electrified,” and “autonomous” including the adoption of full hybrids, mild hybrids, and ADAS technologies will drive part demand and the value of those parts. The AASA projects that vehicles with some level of ADAS technology will account for ~40% of the market by 2030 and the total addressable market will grow 4x by 2030, driving significant aftermarket value.

- *EV's cost the same amount to repair as ICEs.* While our previous estimates suggested a 30% reduction in aftermarket value for an EV vs an ICE, there are several data sources showing that EV's are costing more to repair than ICE's. For example, according to RepairPal, a Tesla will cost you \$832/year to repair vs \$652 for the average ICE vehicle. Further, according to Consumer Reports, electric vehicles have 79% more problems than an ICE and plug-in Hybrids have 146% more. Of course, as EVs age and new models penetrate the market, these numbers will change. For now, the question remains as to whether the traditional aftermarket will be trained, equipped and able to complete the majority of repairs.

- *Electric vehicles will account for 2% of the aftermarket by 2030.* The AASA estimates that fully electric vehicles will account for 10% of the car parc by 2030, but only 2% of the aftermarket (vehicles 6+ years old) (Exhibit 17) which is in line with our internal estimate of 2.2%. (Table 1). Parts that have growth opportunities include tires, suspensions, non-engine drivetrain, sensors, monitoring systems, HVAC, infotainment/content and battery refurbishment, battery invertors and battery technology. Further, hybrids are expected to be 16% of the 2030 car parc which is positive for the aftermarket.



Source: MEMA/AASA Industry Overview – Gabelli Conference

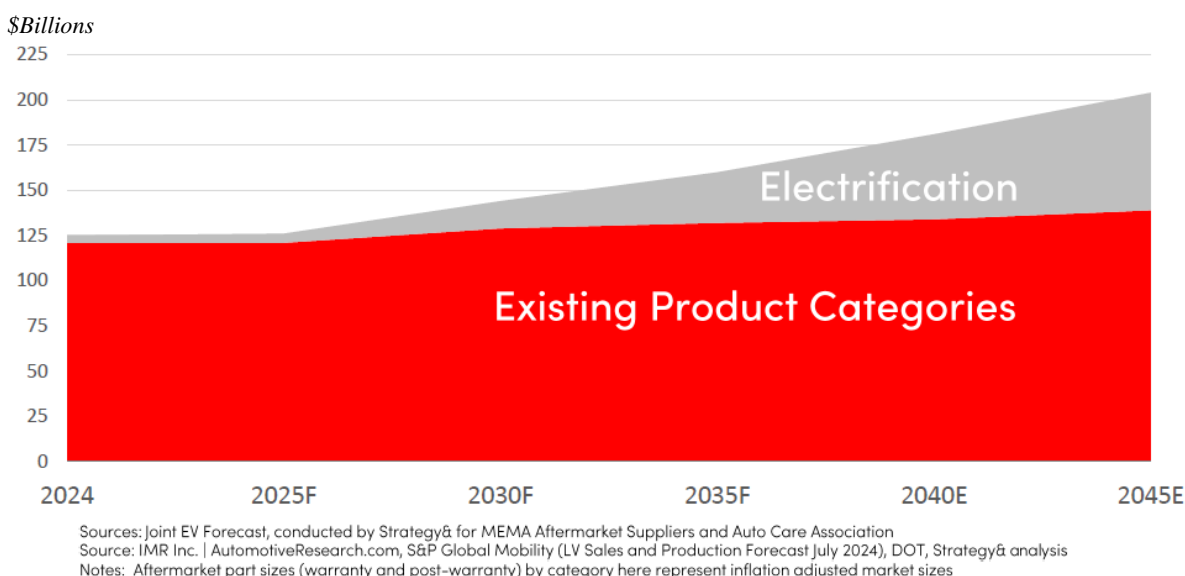
Table 1 Full Electrification Not a Large Percentage of the aftermarket (+6 year old vehicles) by 2030

	2026	2027	2028	2029	2030
Number of Vehicles in Aftermarket	201,020	200,117	202,040	203,158	206,394
Number of BEVs in Aftermarket	1,070	1,518	2,243	3,308	4,459
% of BEVs in Aftermarket	0.5%	0.8%	1.1%	1.6%	2.2%

Source: MEMA/AASA Industry Overview – Gabelli Conference, EV-Volumes.com, and Gabelli Funds estimates

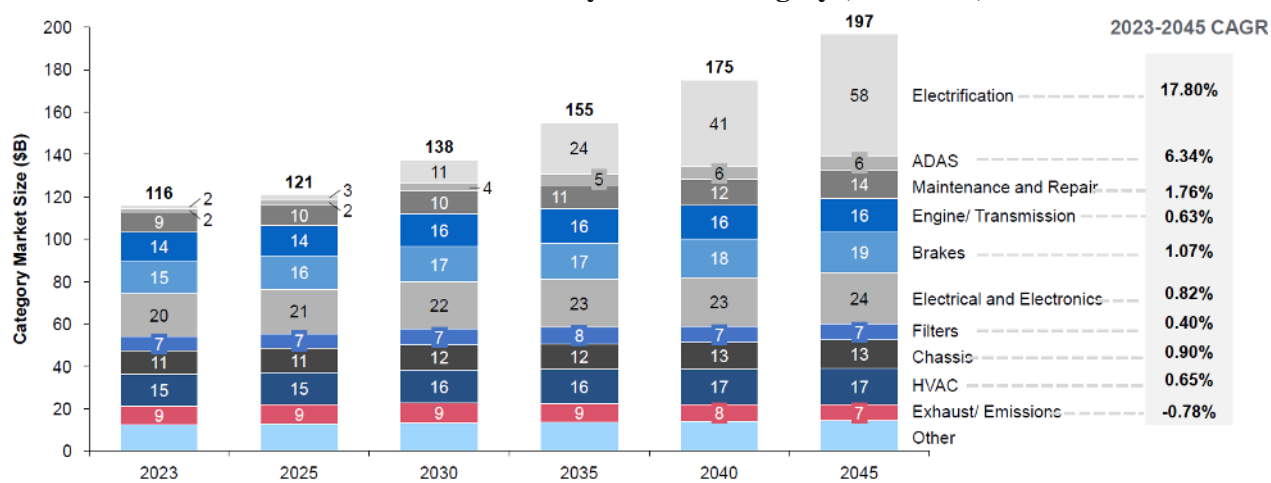
- **Electrification and ADAS technology to drive aftermarket growth.** Due to the average age of the vehicle on the road, extended period of ownership and the resulting slow evolution of the vehicle parc (Exhibit 18), demand for existing product categories should grow slightly through 2045, while electrification should add 67% of value over the next 20 years.

Exhibit 18 **Aftermarket Growth by Product Category (2023-2045)**



As shown in Exhibit 19, traditional categories such as filters, chassis and brakes are only expected to grow by 0-2% per year; however, ADAS and electrification technologies are expected to grow at 6% and 18% per year respectively through 2045. According to MEMA, the ADAS addressable market is expected to double to \$1.1 billion from 2024-2030, indicating signs of short and long term growth. The growth in these higher priced, higher value parts should drive aftermarket earnings as historically, the aftermarket has been able to push through prices of new technology while maintaining strong margins.

Exhibit 19 **Aftermarket Growth by Product Category (2023-2045)**

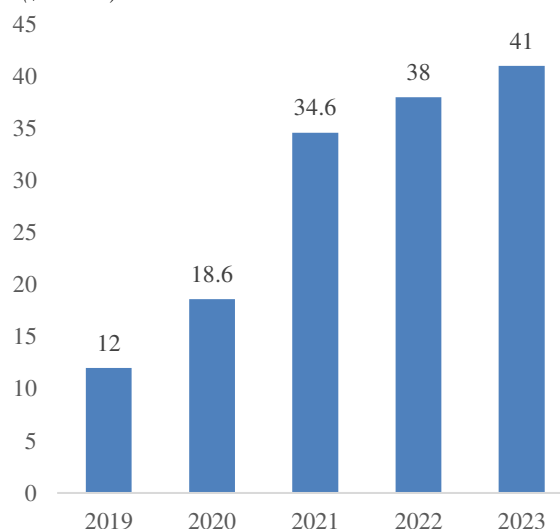


Source: Joint EV Forecast, conducted by Strategy& for MEMA Automotive Aftermarket Suppliers and Auto Care 2023

E-tailing: Opportunities to Gain Share and Barriers to Entry

“We had years of e-commerce penetration in 12 months” – AASA Vision conference in 2021. While it is difficult to estimate the size of aftermarket e-commerce, Hedge&Company estimates that e-commerce sales grew from \$12 billion in 2019 to ~\$41 billion in 2023 (Exhibit 20). Most aftermarket players have highlighted doubling e-commerce sales during the pandemic with little expectations of a reversal. However, it is still estimated that the aftermarket is one of the least penetrated retail industries at ~10% e-commerce penetration. Large pure play e-commerce players such as AMZN and smaller players such as PRTS are looking to gain share by going directly to the customer and cutting out brick-and-mortar storefronts. However, industry experts expect that only ~\$1 billion of AMZN’s automotive e-commerce sales relate to Big 4 categories and that much of the accessory and discretionary market had already transitioned to online over the last 10 years. As 100% online competitors look to disrupt the original landscape, the large distributors need to prove that they can: 1) maintain this share by building out superior omnichannel models; and 2) maintain pricing in the face of potential pricing pressure.

Exhibit 20 COVID drives e-Tailing growth
(\$ billions)



Source: Source: Hedges & Company, CaRiD Investor

Industry experts believe that the immediacy of parts and service needed by professional installers has slowed e-tailing penetration.

- *Distribution capacity as a barrier to entry.* DIFM customers often require delivery speeds of 30-45 minutes across 100,000’s of SKUs. We believe that e-commerce players will have to build out automotive parts distribution capacity similar to ORLY’s nearly 60 million square feet of distribution and selling capacity, which is 100% focused on the distribution of auto parts, to meet similar delivery speeds. This distribution capacity serves as a barrier to entry. Given low distribution capacity specific to auto parts, e-commerce disruptors will have to vastly increase distribution capacity to compete in the DIFM market and meet 30-minute delivery times. Non-automotive e-commerce distribution competitors will also have to manage the low inventory turns of ~1.3x specific to the aftermarket industry. We currently estimate that AMZN has about 200 million square feet of fulfillment capacity and an additional 150 million square feet of distribution logistics across all products sold via AMZN: holiday gifts, Wholefoods, toys, etc.
- *Tech is complicated, service is needed.* Currently, a significant portion of online sales are buy-online, pick-up-in-store which indicates a certain level of service required by the DIY market. To meet service requirements, online competitors will need to dramatically increase SG&A expenses on personnel specific to parts technology or attempt to build out a crowd-sourced platform of specialists that opt to provide advice. We believe that DIY would transition to online competition easier than DIFM (the large aftermarket distributors manage digital systems).
- *Acquisitions in the future?* In China, New Carzone, established by Alibaba, CarZone, and QCCR, integrates automotive e-commerce, warehouse/retail distribution, and repair services. As distributors continue to maintain share for the above reasons, there could be a similar merger in the long-term.
- *The potential for pricing pressure.* E-commerce players increase market price transparency. Private label parts that often do not meet the same quality as distributor brand labels are sold at 20%+ discounts. This spread and online transparency may pressure margins at brick-and-mortar storefronts.

POTENTIAL HEADWINDS

Share Gains and Consolidation Drive International Expansion and Questions over Margin Expansion

The “big are getting bigger.” During COVID and the subsequent supply chain crisis, the Big 4 grew +25% on average, gaining share as smaller competitors or large-box retailers could not maintain inventory or keep stores open. This most likely drove further consolidation of the market. As inflation moderated in 2024, underlying volume potential after such an accelerated growth pattern came into question. Further longer term margin potential and supplier issues remain.

Fewer domestic growth opportunities driving international growth: Company-owned stores at AZO, ORLY, AAP, and NAPA (GPC) composed 49% of the parts stores in the U.S (60% including NAPA’s independent stores). Overall, the top ten aftermarket parts providers constituted 53% of U.S. parts stores in 2023, up from 32% in 2003 (Table 2). Given market consolidation, the Big 4 are expanding globally with GPC acquiring AAG in Europe, O’Reilly announcing a larger distribution center in Mexico and AZO accelerating growth in Latin America. We believe that global market expansion is a sign that future domestic growth may be tempered. However, the DIFM market also remains an opportunity. DIFM is more fragmented than the DIY market, with professional installers often looking to local jobbers to source parts.

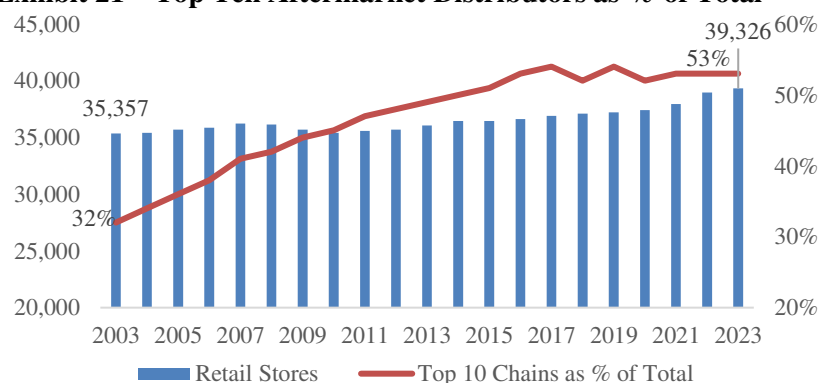
Table 2
2023 Top 10 US Auto Parts Distributors

1. AutoZone Inc.	6,364
2. O’Reilly Auto Parts	6,152
3. Advance Auto Parts	5,097
4. Genuine Parts/NAPA*	1,780
5. Fisher Auto Parts	500
6. Parts Authority	229
7. Replacement Parts, Inc.	219
8. Auto-Wares	200
9. Automotive Parts Headquarters	184
10. Hahn Automotive	100

Note: By US store count, Genuine Parts company-operated stores only (not inclusive of 4,618 independents)

Source: ORLY via AAIA Factbook

Exhibit 21 Top Ten Aftermarket Distributors as % of Total



Source: ORLY via AAIA Factbook

Supplier pressure and margin deceleration: Consolidation of buying power has significantly altered aftermarket parts sourcing (driving significant distributor margin) and pressured supplier margins. While there are no signs of change at this point, the pressure of consolidating distribution and low cost sourcing could lead to supplier interest in different distribution channels such as e-commerce and more integrated supply/distribution chains.

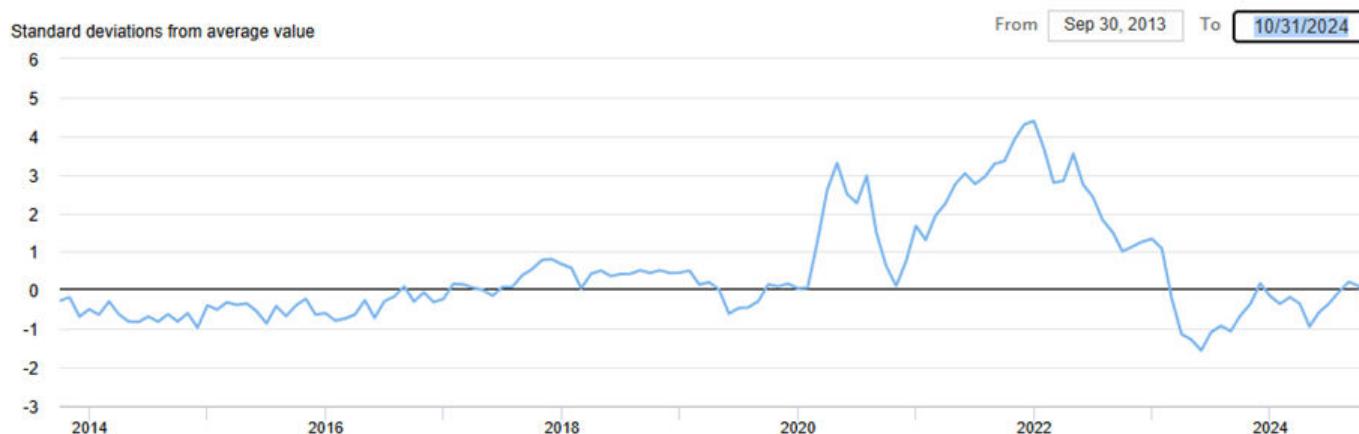
Interest Rate Increases Pressure Suppliers as Ability to Pass through Price is Limited

The Big 4 have leveraged their size advantage to extract extended payable terms and increased volume rebates from vendors. Aftermarket supplier agreements (often referred to as factoring) now allow the distributor to pay for a good in up to 360 days. Instead of holding the receivable on the balance sheet for the full 360 days, the supplier sells the receivable to the distributor’s financial institution for cash. The cost of the spread (the amount of the receivable less the upfront cash) is the discount factor, which is typically set at SOFR+. Once the supplier receives the cash from the finance institution/bank, both the cash and the expense (discount factor) are booked. During the last several years of low interest rates, suppliers utilized this inexpensive form of financing to extend terms and compete for clients while retailers pushed AP/Inventory ratios to ~130% reducing net working capital and freeing up cash flow for investments and repurchases. Over the last year, SOFR has increased from flat to +5%. If a company was holding \$1 billion in receivables from the banks, an interest increase of nearly 5% would equate to an additional ~\$50 million expense. Previously, distributors have suggested that any such interest rate costs could be passed along similar to any other input costs (e.g. labor, freight), however, 2024 earnings releases highlighted margin pressure. As SOFR comes off of +5% highs, we expect some margin relief for suppliers. We do note that after years of steady growth, further expansion of these terms is most likely limited, reducing the large free cash flow growth of the past decade (for distributors).

Moderating inflation, but no historic precedence for disinflation

During our 2021 conference, AZO stated that the aftermarket was experiencing the worst supply chain crisis since WWII. Inputs such as steel, semi-conductors, and resins inflated, container prices were up 6x and labor supply declined driving up wages. These issues were exacerbated by the sharp fall in demand in mid-2020 that was then followed by a sharp increase in demand driving uncertainty around optimal inventory levels. All of these factors drove significant cost pressures in the market with the distributors quoting price increases of ~15% over 2 years. This year, participants noted moderating to 0% inflation. This is best exemplified by the FED's Global Supply Chain Pressure Index which indicated a rapid 4x growth in 2021 that began easing in 2H 2022 and has been followed by sustained moderation (Exhibit 22). Presenting suppliers such as SMP and MPPA were less exposed to overseas sourcing during this period and provided superior growth rates. All companies stated that the aftermarket has never been in a position of lowering costs and do not believe most categories will experience deflation.

Exhibit 22 Fed Global Supply Chain Index (CPI Index data: 2014-2024)

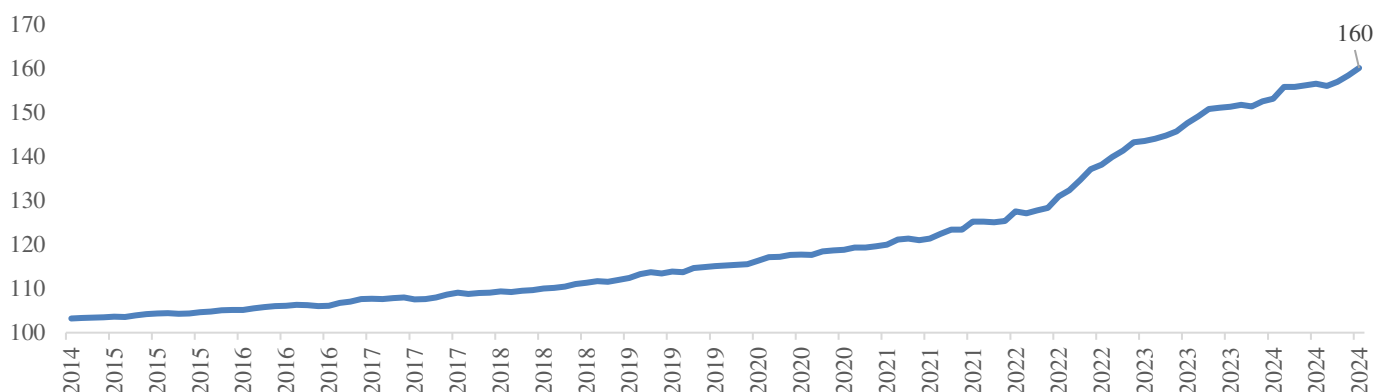


Source: Federal Reserve Bank of New York

Increasing Costs vs Consumer Elasticity

Increasing complexity and advanced technologies, along with the aforementioned cost increases, have been driving aftermarket pricing. Vehicle Maintenance and Repair CPI has gone up +60% over the last 10 years (Exhibit 23). There are two main reasons for the long-term growth: 1) higher quality parts keep vehicles on the road longer, thereby, increasing the value of maintaining one's vehicle; and 2) new technology, such as ADAS and sensor-based technologies have driven up the complexity and value of aftermarket parts. Historically, aftermarket distributors have been able to push through prices while maintaining margin and suppliers maintain gross profit dollars.

Exhibit 23 The Increasing Costs of Vehicle Maintenance and Repair (CPI Index data: 2014-2024)



Source: Federal Reserve Bank of New York

Shorter term, we believe the additional costs of ownership are weighing on the current consumer driving deferral rates above recent averages. As previously mentioned the independent aftermarket is geared towards 2nd and 3rd car owners that leave dealerships for better values. These owners tend to be in the bottom 50% quartile of earnings. As indicated by the Federal Reserve's Equitable Growth Indicator, inflation grew in 2023 and remains elevated through 2024. The Maintenance and Repair CPI up ~6% YTD (2024) and +13% in 2023. We believe these customers are feeling the pressure of overall rising living costs, the increased costs of auto insurance (+20% in 2023/2024), and higher repair and maintenance costs that are leading to some deferral. While we believe these pressures will slow and the inevitable maintenance and repair will occur, we do note a near-term slow down.

Exhibit 24 Inflation elevated for lower quartile earners (annual inflation rate 2019-2024 by earnings quartile)



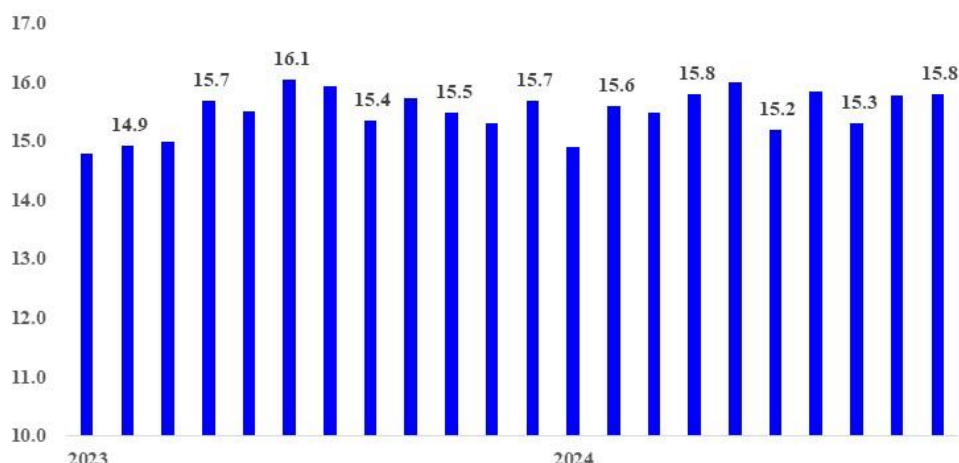
US LIGHT VEHICLE MARKET OUTLOOK:

A March Back to 17 Million Vehicles Begins

With inventory availability no longer a hurdle in keeping new vehicle sales from returning to historical levels, the Seasonally Adjusted Annual Rate (SAAR) for light vehicles in the United States during 2024 generally hovered between 15.5 and 16 million units. This level, while still remaining below trend, has been generally healthy for participants in the ecosystem, including dealers and suppliers.

As we look forward, vehicle affordability is the true key to unlocking the move from a 16 million unit SAAR back to trend closer to 17 million, a level the industry enjoyed prior to 2020. Tepid inflation, coupled with higher interest rates and a more typical new-to-used-vehicle price relationship all factored into keeping monthly payments for new vehicles in the mid \$600 per month level. With monthly payments now above \$750, it will likely take some time for consumers to digest the added cost before the industry returns to a more normalized rate. We expect the return of manufacturer-funded incentives, a variable largely absent over the past four years, to assist in offsetting the impact from rate-related increases to average monthly payments. Further, we expect fleet sales, such as those to car rental, government, and commercial customers, to begin to become a larger portion of the overall mix in 2025

Exhibit 25 2023-24 Monthly US Light Vehicle SAAR



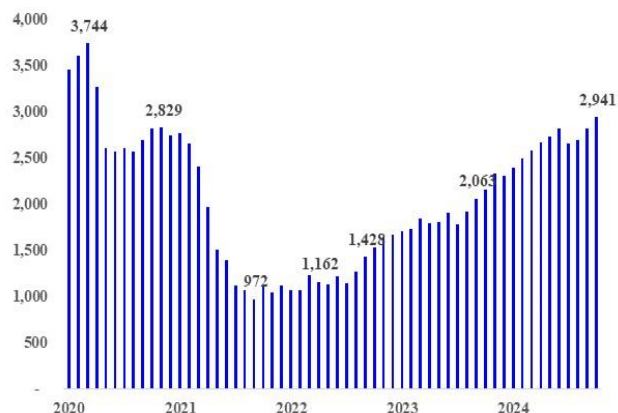
Source: Ward's

Regarding conversations in Las Vegas, presenting suppliers noted a much more enjoyable environment with which to conduct business given the more predictable production environment. This contrasted sharply with commentary over the last two years, when supply chain disruptions driven initially by COVID and then thereafter by shortages for certain products, hampered profitability within the supplier space. A much more normalized environment sets the stage for a solid, though pockets of excess inventory and production adjustments will create potential hiccups in performance, particularly during the first half of the year.

Dealer Inventory Normalizes

The rebound in inventory that began in the back half of 2023 continued in earnest throughout this year as production schedules became more predictable without considerable increases in demand for new vehicles. The 18,000 dealers in the United States currently carry over 2.9 million units, up from the 2.1 million units when we met in Las Vegas at the end of October 2023. Thought at the time to be one of the primary reasons behind sales rates remaining low, the greater availability of inventory clearly offset some affordability challenges that continue to plague the market. Dealers days' supply stands at a reasonable 58 days, compared to 40 a year ago. OEMs typically target a 50-60 day supply.

Exhibit 26 US Monthly Dealer Inventory, 2020-2024



Source: Ward's

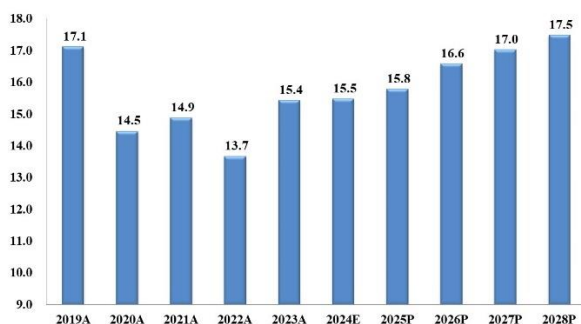
With that said, various platforms, including those in the highly sought after light truck and SUV market, had become saturated to the point where producers such as Stellantis required greater use of incentives to move product. While incentives have risen, we continue to believe that OEMs are more disciplined now than at any point in their history. The 2021-2022 period was informative for automakers, as nearly all manufacturers generated record profits despite inventory levels considerably lower than historic numbers. As we look into 2025, OEM behavior regarding production in the face of middling broader demand will reveal whether true discipline has been found within the ecosystem.

US Sales Recovery Continues

We continue to expect a recovery in US vehicle sales in 2025 as pent up demand is met by greater inventory availability and continued digestion of higher average monthly payments. Further, some expectations for a more accommodative Fed could help reduce interest rate costs throughout the year. Regarding pent up demand, industry sales in the United States ran between 16 and 17 million from 2013 to 2020, meaning up to nine million units of below trend sales were lost during the 2020-2022 period. We believe this provides a higher floor for sales, mitigating concerns for a cyclical downside.

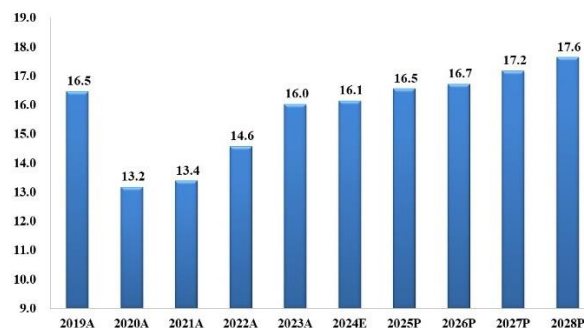
For 2025, we expect US vehicle sales to be between 16 and 16.5 million with the potential to grow north of 17 million by 2026 and 2027.

Exhibit 27 US Light Vehicle Sales 2019A-26P



Source: Ward's, Gabelli Funds estimates

Exhibit 28 North American LV Prod. 2019A-26P



Given the expectation for improvements in sales coupled with a more normalized production environment for suppliers, the backdrop for investing is generally positive. We view the likelihood of production declines in the coming years as low, given the foundational demand that exists. Slowing inflation and broader declines in commodity prices, including steel mean that the headwinds of 2023 have subsided – a factor that we expect will help drive profit margins for ecosystem players. These benefits will likely be offset by the potential for trade disruption along with stranded EV capacity, which we discuss in later sections of this report.

OF TARIFFS AND TRADE

We expect several periods of volatility during 2025 as the new administration brings with it discussions of increased tariffs and the potential for brinkmanship regarding trade. Similar to negotiations that took place during the first Trump administration, we expect public comments to be a starting point that ultimately deliver common ground somewhere slightly more restrictive than current levels. We believe global supply chains have adjusted in the past four years, and the industry is better positioned to handle any adjustments that may be required due to trade negotiations.

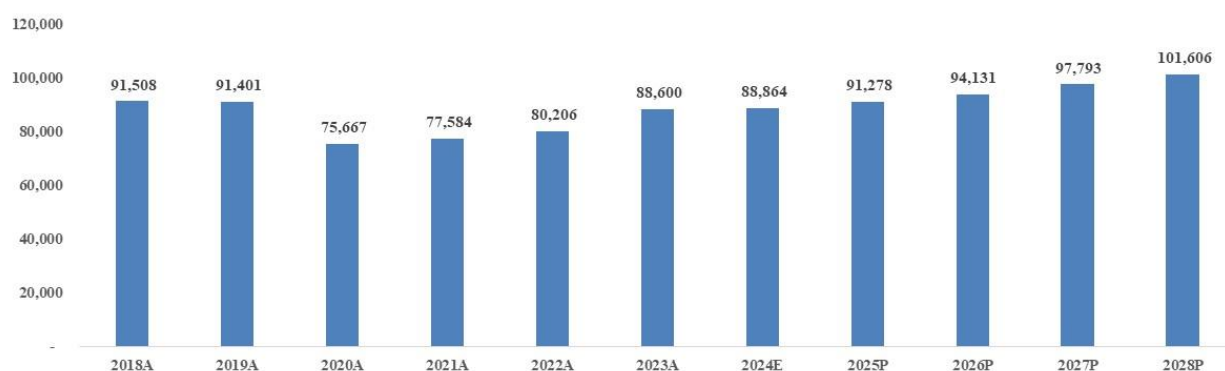
GLOBAL OUTLOOK

The 2025 outlook for global production looks similar to that of this past years. European demand continues to lag, with higher rates and vehicle inflation weighing on consumers. Elsewhere, the outlook in China calls for a slight rebound in 2025, albeit with negative pricing and mix as new entrants continue to produce in excess of demand. These dynamics have made operating in the Chinese market very difficult for incumbents, such as the joint venture arms of Volkswagen and General Motors. Both automakers have called out considerable restructuring within the region, exiting certain platforms and retreating to pockets of the market with higher margins (such as SUVs and vans).

We expect China to resume its steady march back towards 30 million vehicles beginning in 2025 and continuing through the balance of the decade. India is also likely to become a source of growth as the market matures off a low base of 5 million vehicles this year. Overall, we see the potential for 100 million units of global automotive production in the 2028 time frame. From a mix perspective, Electric Vehicles (EVs) will constitute nearly all the category growth at the expense of Internal Combustion Engine (ICE) vehicles. We explore this potential in our next section.

Exhibit 29

Global Light Vehicle Production



Source: Ward's, Gabelli Funds estimates

EV + AI TAKES CENTER STAGE

All Hands on Deck for “No Hands on Wheels?”

The pace of electrification within the automotive industry remained a core topic over our two days in Las Vegas. A clear shift in tone from the unbridled optimism that electrification provided several years ago was evident, with participants relaying a more sober outlook for the promising technology. Affordability, combined with range anxiety and an inconsistent rollout of charging stations across the United States has put adoption at considerably lower level than is currently in Europe or China.

Regarding China, new entrants within the electric vehicle space, combined with lower cost vehicles out of companies such as BYD has made the country a very difficult one for which auto makers can earn a return. Thus far this year, such as Volkswagen and General Motors have announced major scaling back of operations within the country in order to focus on higher margin segments where they believe competitive positioning to be stronger.

We are firmly of the opinion that electrification is here to stay, and that adoption is a matter of “when” and not “if”. With that in mind, variables such as the stance the Trump Administration takes towards EV tax credits in the Inflation Reduction Act have become larger EV question marks. Furthermore, excess EV inventory at the dealer level across the EV space continues to make the vehicles less profitable at the dealer level.

EV GROWTH – FRAMING THE DISCUSSION

We expect annual global electric vehicle sales to grow from 13 million units in 2022 to 36 million by 2030 and the total number of electric vehicles on the road to grow from 40 million to just under 230 million over the same period (Tables 3 & 4 below). This outlook now incorporates a slightly lower growth trajectory for EV sales than was anticipated in 2021 and 2022, but nonetheless one that continues steadily throughout the decade.

The below includes both battery electric/fully electric vehicles (BEVs) and plug-in hybrid electric vehicles (PHEVs).

Table 3 Global Electric Vehicle Sales 2023A – 2030P

<i>(units in thousands)</i>	2022A	2023A	2024E	2025P	2026P	2027P	2028P	2029P	2030P
Light Vehicle (ICE) Sales	69,569	75,431	76,708	77,960	78,497	78,832	78,675	78,093	76,229
	-6%	8%	2%	2%	1%	0%	0%	-1%	-2%
Light Electric Vehicle Sales	10,377	13,238	15,062	17,170	19,486	22,091	25,275	28,976	34,052
	54%	28%	14%	14%	13%	13%	14%	15%	18%
Total Light Vehicle Sales Sales	79,946	88,669	91,770	95,129	97,983	100,923	103,950	107,069	110,281
	-1%	11%	3%	4%	3%	3%	3%	3%	3%
EV Market Share	13.0%	14.9%	16.4%	18.0%	19.9%	21.9%	24.3%	27.1%	30.9%

Source: Ward's, Inside EVs, IEA, Gabelli Funds Estimates

Table 4 Global Electric Vehicle Population

<i>(units in thousands)</i>	2022A	2023A	2024E	2025P	2026P	2027P	2028P	2029P	2030P
Global ICE Population	1,336,712	1,390,180	1,431,886	1,474,842	1,504,339	1,534,426	1,565,115	1,580,766	1,596,573
	4%	4%	3%	3%	2%	2%	2%	1%	1%
Global EV Population	27,413	40,546	56,750	77,215	101,057	127,667	157,779	191,552	229,214
	64%	48%	40%	36%	31%	26%	24%	21%	20%
Global Light Vehicle Population	1,364,125	1,430,727	1,488,636	1,552,057	1,605,396	1,662,094	1,722,894	1,772,318	1,825,788
	5%	5%	4%	4%	3%	4%	3%	3%	3%
EV Market Share	2.0%	2.8%	3.8%	5.0%	6.3%	7.7%	9.2%	10.8%	12.6%

Source: Ward's, Inside EVs, IEA, Gabelli Funds Estimates

Artificial Intelligence (AI) and the move to Full Self Driving (FSD) Autonomy

Less topical in Las Vegas, but clearly on investors' minds is the potential for greater proliferation of self-driving and other autonomous vehicles. With reports indicating that President-elect Trump's transition team, including Elon Musk was exploring less restrictive federal regulations for autonomous vehicles, the potential to accelerate development and ultimately roll out AV's is likely to set up as a 2025 item for stocks.

The proliferation of electric and autonomous vehicles is due in no small part to the artificial intelligence and data center revolution that we detailed in our 2024 White paper "EV +AI" (Exhibit 30, right).

With the next administration looking potentially to develop a federal regulatory framework for autonomous vehicles along with less restrictive state approval processes, the implementation of true autonomous vehicle fleets over the course of the next five years would become a much greater possibility. Currently, Tesla (TSLA) along with Alphabet's (GOOGL)Waymo and General Motors' Cruise businesses appear to be at the forefront of autonomous vehicle development, with Robo taxi fleets in service in certain cities, including some pilot programs without any drivers acting as safety regulates within the vehicle. Currently, Tesla Full Self driving or FSD technology is not fully autonomous and still requires drivers supervision.

Suppliers such as Aptiv (APTIV), and others will play a critical role in the ultimate success of autonomous driving.

Exhibit 30 Gabelli EV +AI Report



Source: Gabelli Funds

EV Discussion in Vegas Highlights Include Thoughts on Elimination of EV Tax Credit

While presenters were mixed in their expectations regarding electrification adoption in North America, model proliferation, and the onset of more affordable vehicles should drive consumers to the sector. An encouraging sign as well is the recent stability in EV prices, particularly by Tesla, which had spent the greater part of 2023 cutting prices. At this point, nearly every auto maker has extensive plans that are well in place to build new BEV and PHEVs over the course the next five years.

What will be interesting, of course, will be how the new administration treats the subsidization of electric vehicles. At present, the administration is considering eliminating the \$7,500 tax credit currently available to buyers of electric, plug-in, hybrid or fuel cell vehicles. The EV tax credit is part of the Inflation Reduction Act (IRA), which was signed into law in 2022. In order to amend or eliminate this credit, Congress would have to pass a new law to either erase the credits or amend the IRA.

Trump administration confidant Elon Musk, CEO of Tesla, appears to be in favor of the elimination of the EV tax credit. Given the head start that Tesla has regarding electrification in the United States, the elimination of the credit could potentially create greater relative barriers to entry for auto makers besides Tesla.

Exhibit 31 Tesla Model Y



Source: Edmunds

Regulations Remain a Primary Driver

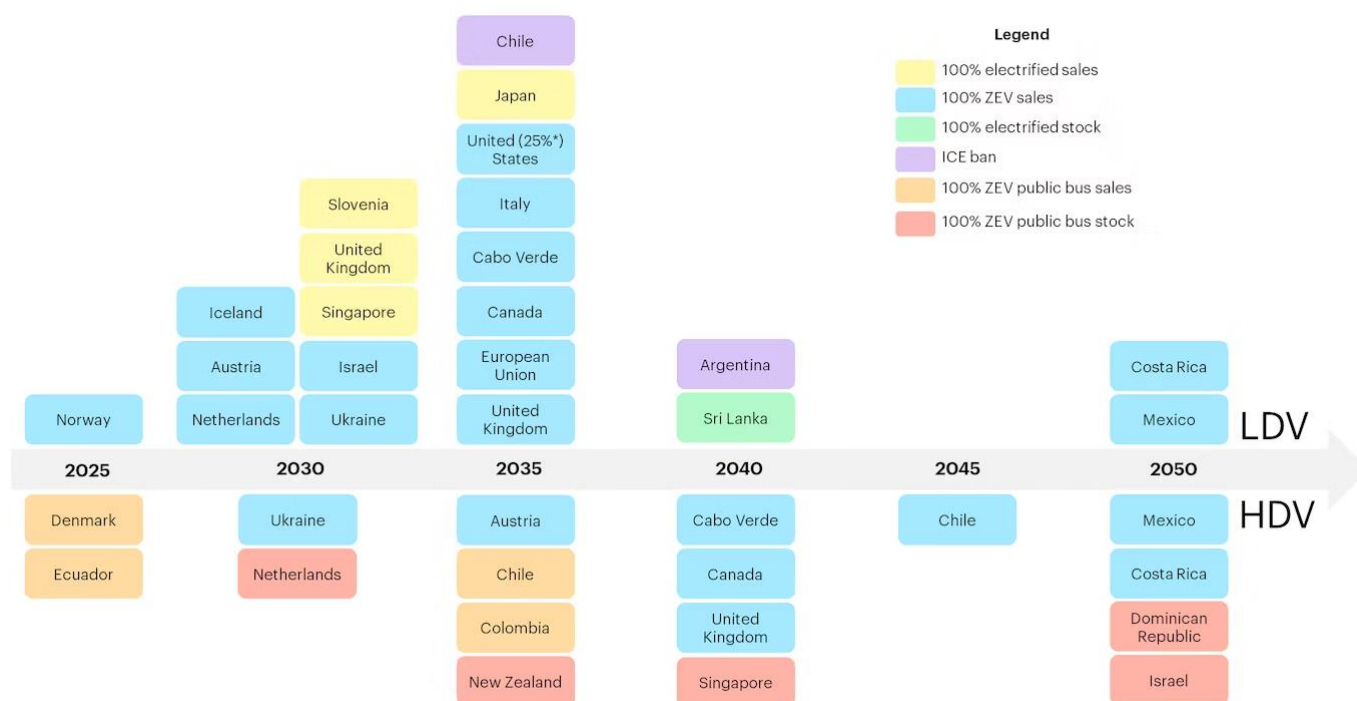
Despite what we believe is a near term hiccup in EV excitement, EVs are coming – with government support (or mandates in some respect) remaining. This is most clear in China and Europe, where either state-mandated or climate-driven laws are set to phase out Internal Combustion Engines in consumer vehicles nearly entirely over the next 15-20 years.

Automakers are met with the choice of whether to compete or risk missing an opportunity on a market entirely. Exhibit 32 (below) depicts the coming regulatory hurdles ahead for automakers by geography. Initially, smaller countries such as Norway (2025) seeking 100% Zero Emissions Vehicle (ZEV) sales will aim to eliminate ICE sales, followed by larger markets such as China and Japan, who both target 100% electrified (including hybrids) sales in 2035.

European automakers must reduce average CO2 emissions targets for new passenger cars from 130 g/km in 2015 to 95 g/km by 2020 and 60 g/km in 2030 and face heavy fines for exceeding targets, which we believe could serve as a €30-35 billion industry headwind over the next decade. Simply put, automakers cannot be compliant without producing electric vehicles. Nearly all have made what is becoming an easy decision to make the expensive shift.

Exhibit 32

Global Emissions Regulations/ICE bans



Source: International Energy Agency (IEA)

In the U.S., California originally announced plans to ban sales of internal combustion engine vehicles by 2035. Washington, New York, and Massachusetts have followed suit, with others likely to join. We expect all states to adjust plans as EV demand has yet to meet original expectations.

Lithium Ion Batteries Explained

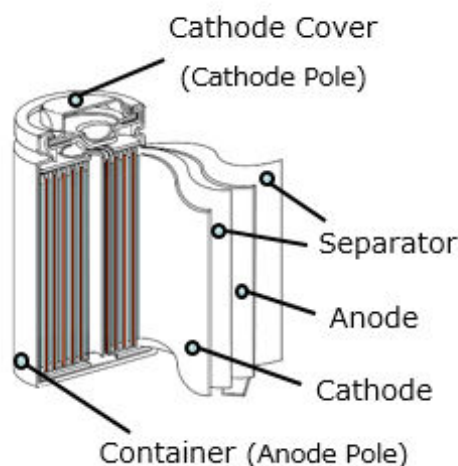
A lithium-ion battery generates power (DC) through a chemical reaction as lithium ions move from the anode to the cathode during discharge (see Exhibit 34 below). During the charge phase – lithium ions transition back from the cathode to anode. This process is repeated continuously through up to thousands of battery cycles. Lithium-ion batteries are valued for their: 1) high energy density versus other rechargeable batteries (including nickel metal hydrides, nickel cadmium, and lead acid batteries) making them smaller and lighter; 2) greater relative power (output); and 3) long life cycles as they are rechargeable.

Exhibit 33 Leading Lithium-ion Battery Cell

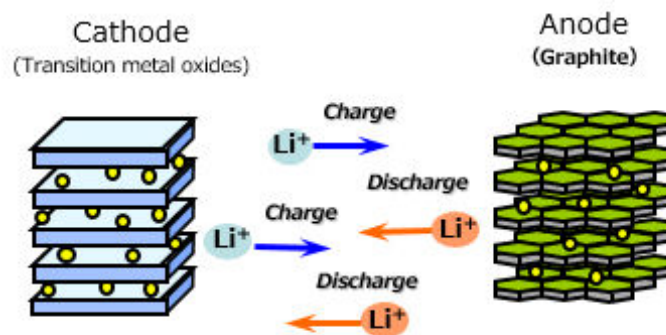


Exhibit 34

Lithium-ion Battery Illustrated



Source: Panasonic



Investing in the Automotive Battery Through Legacy Suppliers

Investing via public companies in the automotive battery itself provides limited options to a degree, with most capacity (and publicly traded companies) residing in China or South Korea. Raw materials suppliers in the Lithium Ion battery supply chain (those that provide Lithium, Nickel, etc.) provide a more direct way than most but remain outside the auto industry.

Dana Incorporated (DAN) once again spoke to opportunities in EV batteries through battery cooling systems. Similarly, Modine (MOD), another supplier with a long history in the automotive heating and thermal solution segment is similarly developing technologies for batteries in buses and off highway vehicles. Companies such as Aptiv (APT) and Lear (LEA) in the wire harness space support increased electrification in vehicles, including the battery powertrain.

AUTO DEALERS: CASH FLOW THOUGHT DIVERSE REVENUE STREAMS

Presenting dealers in Las Vegas discussed the continued normalization of profit margin levels as inventory at dealers in the United States recovered from multiyear lows throughout 2024. Once again, despite considerable compression in both new and used vehicle gross profit per unit (GPU), the resilience of the business model was evident. Highly profitable revenue streams in parts and service, along with the continuation of improved attach rates of finance and insurance products such as extended warranties and gap insurance have mitigated compression in GPU that has been more muted than originally anticipated.

From an investor perspective, we continue to greatly favor the dealer model. The ability for the group to adapt, adjust, and overcome to all economic realities over the course of the past five decades speaks to the resiliency of the model. As we noted a year ago, we believe that lessons learned from the 2020-2021, combined with a more discipline automaker base have made dealers structural more profitable entities. Additionally, cash generated by dealers is likely to bring with it a new age of consolidation through Merger & Activity or a continuation of return to shareholders via share purchases.

Table 5 **Top Public Dealership Groups in the United States, 2023 (by new units)**

Unit Rank		Total New		Total Fleet Units	Total		Dealerships	2023 Total Revs (\$ millions)
		Retail Units	Total Used Units		Wholesale Units	Total Units		
1	Lithia Motors, Inc.	314,116	325,764	15,625	74,294	729,799	344	\$ 31,042.0
2	AutoNation, Inc	244,546	274,019	558	72,142	591,265	271	26,949.0
3	Penske Automotive Group	229,942	256,721	6,272	94,548	587,483	318	29,527.0
4	Group 1 Automotive	175,566	199,963	-	31,456	406,985	199	17,873.0
5	Asbury Automotive Group	149,509	127,507	-	-	277,016	160	14,803.0
6	Sonic Automotive Inc.	107,257	173,886	2,000	32,330	315,473	133	14,356.0

Source: Automotive News

Dealers 101

To refresh, franchised auto dealers are diversified businesses that generate sales and profits from four distinct operating lines: 1) new vehicle sales, 2) used vehicle sales, 3) parts & service, and 4) finance & insurance. While new vehicle sales constitute the majority of an auto dealer's revenues, dealers historically have relied heavily on the higher margin service & parts business to cover fixed costs and generate considerable gross profit. Dealers benefit from a variable cost structure in which primary fixed costs consist of building maintenance, administrative overhead, and base advertising. A dealer's sales force is generally compensated via commission, helping maintain dealer profitability at low new vehicle sales levels by naturally reducing SG&A. To highlight this, AutoNation, Penske, and Lithia all reported positive EPS in 2009 and again in 2010 despite the largest percentage decline in new unit sales since World War II. In 2020, as automotive repair remained an "essential" activity in the spring despite COVID-related shutdowns, service bays remained open and enabled dealers to continue to generate positive operating income.

Dealer Model Driven by Parts & Service

Table 4 (right) provides a snapshot of the public dealers' businesses by revenue (excluding Penske's Commercial Vehicle operations).

While the top portion of the table highlights what appears to be a model driven largely by variable operations (selling more units), the bottom depicts a more telling reality. Dealerships draw a considerable percentage of their profits from the combination of selling Used Vehicles along with providing Aftermarket Parts & Service; line items largely independent of broader cyclicalities within the new vehicle market. This unique feature of the operating model is a primary reason (but not the only one) that dealers have remained resilient through nearly every economic headwind faced through their history- including the Great Financial Crisis and COVID.

Table 6 Franchised Dealer Operating Model (2024E)

(\$ in millions)	AutoNation	Penske (a)
Revenue by Operating Line		
New Vehicle Retail	\$ 12,515	\$ 11,812
Used Vehicle	6,920	8,613
Finance & Insurance	1,315	807
Total Variable Operations	\$ 20,750	\$ 21,233
Parts & Service	4,630	3,018
Other	22	-
Total Revenues	\$ 25,403	\$ 24,251

(\$ in millions)	AutoNation	Penske (a)
Gross Profit by Operating Line		
New Vehicle Retail	\$ 748	\$ 1,103
Used Vehicle	408	461
Finance & Insurance	1,315	807
Total Variable Operations	\$ 2,471	\$ 2,372
Parts & Service	2,204	1,753
Other	-	-
Total Gross Profit	\$ 4,675	\$ 4,124

Gross Per Unit – Is \$3,000 the floor?

Lack of vehicle availability over the past three years drove automakers and dealers to shift strategies regarding pricing in order to maximize profitability. With fewer cars, trucks and SUVs available, prices rose and dealers worked to ensure each sale benefited the organization as much as possible, as the next shipment of inventory was often unpredictable. This drove gross per unit to record levels of nearly \$6,000 per unit for AutoNation in 2022 from pre-COVID levels in the \$1,600 range (Table 5, next page).

	AutoNation	Penske (a)
Gross Profit by Operating Line		
New Vehicle Retail	16%	27%
Used Vehicle	9	11
Finance & Insurance	28	20
Total Variable Operations	53%	58%
Parts & Service	47	42
Other	-	-
Total Gross Profit	100%	100%

Source: Company filings, Gabelli Funds

(a) Note: PAG revenues for light vehicle business only

Investor debate currently centers on where the floor will be found in GPU. We continue to posit that dealers will enjoy greater Gross Per Unit on an absolute basis for longer for two reasons. First, automakers are less likely to engage in the overproduction practices that drove excess inventory for decades. OEMs themselves enjoyed record profitability in 2021 and 2022 despite lower than peak production levels. Managements witnessed the benefits of higher prices and lower incentives, with dealers participating in free rider beneficiaries. Naysayers believe OEMs will soon fall back to bad habits, overproduce, and dilute unit profitability. We view the proactive measures taken by Stellantis this year as evidence that market discipline continues to be appropriate.

The second variable we focus on is absolute vehicle price. Dealers are likely to attempt to maintain not only per unit profit but also margins that have largely stayed constant through time. As the average vehicle price has risen to over \$47,000 from \$35,000 in 2019 (higher at publicly traded dealers), so has, in our view and those of our presenters, the baseline dollar amount that dealers will receive in gross profit.

To illustrate how far operating metrics have shifted, we detail below AutoNation's third quarter per unit metrics over the last four years.

Table 7 AutoNation 3Q Same Store Unit Metrics, 2019-2024

AutoNation	2019A	2020A	2021A	2022A	2023A	2024A
Avg. Selling Price/New	\$ 38,710	\$ 41,644	\$ 47,524	\$ 51,447	\$ 51,373	\$ 50,207
Gross per Unit/New	1,606	2,535	5,484	5,927	4,048	2,810
F&I/Unit	1,939	2,154	2,573	2,766	2,759	2,589

Source: Company filings

As shown in Table 5 (previous page), per unit profit metrics at publicly traded dealers reached new historical highs in 3Q of 2020. Both AutoNation and Penske saw gross profit per new unit reach nearly \$5,500 and \$6,000, respectively, with corresponding increases as well in F&I per unit. OEMs across the board have realized they can maximize profitability by producing fewer vehicles, focusing on content per unit, and reducing costly (and brand dilutive) incentives.

Additionally, 2020 tested dealer-operating models in such a way that businesses learned they could generate greater profitability with considerably lower overhead. For example, AutoNation had SG&A/Gross Profit (an important metric for dealer profitability) well above the 70% range. In the interim, while the aforementioned benefits to Gross Profit Per Unit have clearly played a role, the company have enjoyed considerable increases in S&A/Gross that remain well below historic areas. This level of success has led to a strategic shift by management toward keeping this metric in the mid-60% range whenever values eventually compress for new vehicles. Essentially, dealers are better prepared to earn more with lower fixed costs.

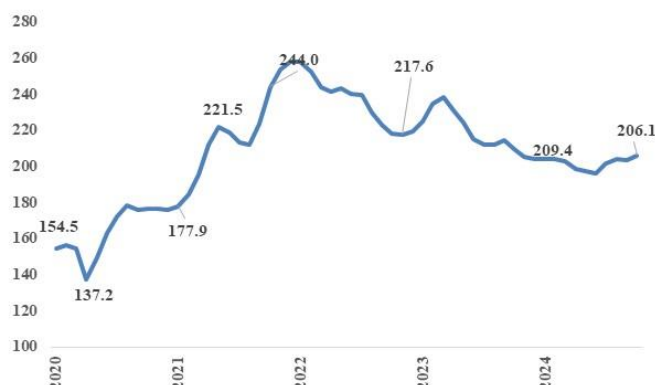
Used Vehicle Market In Flux

The largest challenge for our presenting dealers is a used vehicle market that remains out of equilibrium. Low new vehicle sales have reduced the overall supply of 0-3 year old cars that would otherwise have been set to be used as trade ins this year. This lack of broader availability has been further exacerbated by a reduction in leasing during the same time period, as off lease vehicles have created a quality source of supply for dealers used vehicle endeavors. Finally, lower fleet sales to rental car companies over the past three years reduced available late model vehicle supply as well. Ultimately, this dynamic should bottom later in 2025 but remains a near term headwind from a unit standpoint.

With this in mind, used retailers, including dealers, have needed to find quality supply where possible – in some cases sourcing older vehicles than they otherwise would have or those vehicles requiring greater than normal reconditioning.

These factors helped drive used vehicle prices to all-time highs in 2021 and 2022 before finally correcting mildly during this past year. Used vehicle prices, as measured by the Manheim Used Vehicle value index, have declined from all time highs, but remain elevated on a historical basis (Exhibit 35).

Exhibit 35 Manheim Used Vehicle Value Index



Source: Manheim

While still elevated, declines in used vehicle prices will likely cause some disruption across the automotive ecosystem. While affordability of used vehicles will improve, owners of used vehicles will have less equity to use for trade-ins for both new and used vehicles. Additionally, with fewer trade-ins with which to work (on artificially low new unit sales), sourcing of quality used units remains problematic.

It is our opinion that abnormalities in the traditional relationship between new and used prices and unit sales will continue until new vehicle production increases and prices can normalize for new retail consumers.



AutoNation (AN - \$179.92 - NYSE)

Expanding Financial Capabilities

Year	EPS	P/E	Dividend: None	Current Return: Nil	Shares O/S: 40 Million	52 Week Range: \$197.18 - \$133.01
2026P	\$ 20.73	8.7 x				
2025P	18.43	9.8				
2024E	16.82	10.7				
2023A	23.00	7.8				

COMPANY OVERVIEW

AutoNation, Inc., based in Fort Lauderdale, FL, is the largest automotive retailer in the United States, owning and operating 328 new vehicle franchises from 243 stores. The company sells 32 different new vehicle brands, with 88% of new units sold manufactured by Toyota (incl. Lexus), Honda, Ford, General Motors, FCA US, Mercedes Benz, BMW, Nissan, and Volkswagen (incl. Audi and Porsche).

HIGHLIGHTS

- AutoNation was reasonably constructive on US auto demand, with SAAR in the high 15 million range this year as vehicle availability has improved (as mentioned before, there are currently 2.8 million units on dealer lots in the US, up from 1.7 million a year ago. Within the market, a tug of war of sorts has emerged between pent-up demand (after 3 years of below-trend sales) vs. vehicle affordability as interest rates combined with dropping used vehicle prices to cap overall consumer desire to purchase new vehicles. AutoNation cited increased OEM incentives as beneficial to spur sales as well.
- While the dealer model is evolving given technologies that have enabled automakers to reach out directly to consumers, AN continues to view the franchise model as strong, with a large segment of customers desiring to have heavy engagement with dealers throughout the purchase process and thereafter.
- Regarding gross profit per unit, AutoNation sees OEM discipline, which has been evidenced through prudent production levels, as a key (along with higher average selling prices) to keep a higher floor on the gross profit dealers industry-wide can enjoy on the sale of new vehicle.
- AutoNation's purchase of CIG (now AutoNation Finance) has been a critical factor in growing the company's presence within the used vehicle market. With its portfolio moving away from subprime financing towards a higher credit score customer, AutoNation has seen this business gain share from non-OEM existing lenders. AN Finance loans are 2.5x more profitable to AutoNation as opposed to loans sourced with a third party. Having originated over \$700 million of loans YTD, the company sees considerable room to expand the business. The company also expects to shift sources of growth for AN Finance away from the AutoNation balance sheet as the business gains greater scale.
- AutoNation is utilizing Artificial Intelligence (AI) to layer in new technology to improve underwriting efficiency. AI is providing real time coaching for agents regarding both compliance and sales objectives, with work being done to create behavioral scorecards to better manage customer relationships.
- The company sees EV demand being driven more by the consumer than OEMs, with some automakers now dealing with overly ambitious production schedules that now require heavy incentives to push EV sales. PHEVs continue to be more desirable for consumers given range anxiety, as charging infrastructure (while improved) still remains an obstacle to adoption growth. Separately, AN continues to favor the dealership model over Direct-to-Consumer offerings that companies such as Tesla have popularized in recent years.
- Regarding M&A, AutoNation expects to continue to maintain capital flexibility to pursue all opportunities, including those outside of the Continental US.
- Parts and Service technologies such as videos have helped with consumer trust and drive better overall satisfaction that the company believes ultimately leads to repeat sales of vehicles to keep the "flywheel" moving.



AutoZone, Inc. (AZO - \$3,179.52 - NYSE)

Leveraging Growth

FYE 8/31	EPS	P/E			
2027P	\$ 192.99	16.5 x	Dividend:	None	Current Return: Nil
2026P	173.93	18.3	Shares O/S:	18 Million	
2025E	155.59	20.5	52 Week Range:	\$3,256.37 -	\$2,510.00
2024A	149.55	21.3			

COMPANY OVERVIEW

AutoZone, Inc., headquartered in Memphis, TN, is the largest specialty retailer of automotive parts and accessories in the United States. The company sells to both the DIY (Do-It-Yourself) and DIFM (Do-It-For-Me) markets. As of FY2024, the company operated 6,432 stores in the United States and Puerto Rico, 794 in Mexico, and 127 in Brazil.

HIGHLIGHTS

- AZO has proven the ability to drive earnings growth regardless of underlying economic cycles. The company grew EPS at a 5-year 19% CAGR through topline growth and share repurchases. The company has repurchased \$37 billion or 155 million shares since 1998, with only 17 million shares outstanding today.
- AZO operates a break/fix business with highly inelastic demand. Approximately 70% of the domestic auto business is DIY. Despite this mix, 85% of sales are failure related with only 15% discretionary. Discretionary categories have seen some pullback as customers are not buying anything extra. This part of the business will improve with consumer confidence.
- The commercial customer, 30% of the business, now accounts for \$4.9 billion of sales and has seen nearly 90% growth in the last five years, nearly doubling the business. AZO has been able to leverage its DIY assets to grow DIFM programs to 90% of stores. AZO has partially driven this growth via a hub and mega hub strategy placing more parts, closer to customers and driving AZO up the “first-call” list. The company has a goal to deliver +200 mega hubs and 300 hubs. Hubs carry roughly 50,000 SKUs and a meg hub closer to 100,000 SKUs. Despite this growth, AZO only accounts for 4-5% of DIFM market share with significant opportunity to continue to expand.
- AZO has plans to deliver 500 new store openings per year by FY2028 split between 300 in the US and 200 internationally. On top of driving steady DIY and strong DIFM growth at the underlying store level, new stores should add 3-3.5% revenue growth. AZO has driven sales/store up 35% over the last 5 years to \$2.5 million and achieves 50% ROIC, supporting the growth prospects of this strategic decision.
- The international business, now 12% of the store base, has generated a 28% 2-year growth rate (constant currency). The company now has 794 stores in Mexico and 127 stores in Brazil. AZO has been able to take share with the ability to uncover further merchandizing opportunities. Further, Mexico is a growing market with an aging car parc with an average age of 16 years old. AZO has the largest chain in Mexico by a wide margin. Brazil could grow to the size of Mexico over time.
- Inflation remained subdued in 2024, but there are signs of moderate product inflation that AZO (and the industry) should pass through while maintaining margin, which drives earnings growth. For example, despite +10% inflation in cost of goods sold from 2022-2023, AZO maintained gross profit margin of +53% as the industry remained disciplined and the company passed through price. This is largely due to the non-discretionary nature of the parts sold. New and used car prices remain elevated at over 30% 2019 prices and AZO’s consumer has been faced with investing in their vehicle versus buying at these levels during economic uncertainty.
- The complexity of vehicles and much talked about transition to electric vehicles appears to be more and more of a catalyst for AZO as maintenance and especially failure related parts are more expensive. This has been driving up value, despite some volume loss, in the aftermarket.
- AZO generated ~\$4.3 billion in EBITDA in FY2024 and spent \$1.1 billion in capex providing the company with significant free cash of ~\$1.9 billion for investments in growth and repurchase of shares. Management continues to target 2.5x net debt/EBITDAR.



CarParts.com (PRTS - \$1.02 - NASDAQ)

New Model Disruption

Year	EPS	P/E	Dividend:	None	Current Return:	Nil
2026P	\$ (0.35)	NM	Shares O/S:	57 Million		
2025P	(0.45)	NM	52 Week Range:	\$3.65 -	\$0.68	
2024E	(0.63)	NM				
2023A	(0.15)	NM				

COMPANY OVERVIEW

Headquartered in Torrance, California, U.S. Auto Parts (PRTS) is a leading online provider of aftermarket auto parts and accessories. PRTS sells to consumers through the flagship website at www.carparts.com and online marketplaces. The website and app provide customers with a comprehensive selection of over 731,000 SKUs with detailed product descriptions, attributes and photographs. PRTS' online sales channel and relationships with suppliers eliminate intermediaries in the traditional auto parts supply chain.

HIGHLIGHTS

- PRTS has driven revenue from \$280 million in 2019 to a projected ~\$620 million in 2024 (+2x) as an online disruptor of aftermarket parts distribution. 95-97% of the business is direct-to-customer. Management believes that PRTS has been taking share as buying from carparts.com is more convenient and 50-70% cheaper on average than going to a store. In terms of electric vehicle penetration, PRTS is 90% agnostic to engine train.
- Underlying categories include: 70% collision, 23% is mechanical, and 2% is other. PRTS is the 2nd largest importer of collision parts next to LKQ. The average ticket per basket is \$100-\$120 with 1-2 items per basket. The company has over 10 million email subscribers and achieves 100 million website visits.
- The company has an integrated supply chain network with 1.2 million of warehouse square footage and can reach 99% of population within 2 days. In 2019, click to ship was 7 days and the company only had two warehouses. PRTS loses 6% conversion for every extra day of shipping. Through a new management team and strong execution, PRTS doubled the Las Vegas facility and updated website. Click-to-ship is now down to 12 hours and page load speeds are down from 12 seconds to 1-2 seconds. Both metrics have helped drive significant growth. Despite some post-COVID stimulus pullback, the company has maintained much of the sales growth.
- PRTS total addressable business is expected to grow to \$435 billion by 2026. The largest brick-and-mortar stores such as ORLY, only account for 40% of the market. The remaining 60% is fragmented and provides PRTS share opportunity. Auto parts has seen low ecommerce penetration at 5% vs 22% for the broader retail market. The company has seen better adoption of purchasing auto parts online recently, partially due to the shift to online tutorials. These online tutorials are a strong source of traffic.
- B2B opportunity is significant and a major 2025 focus. The company is working to partner with a new mobile DIFM partner. Variable contribution in B2B is significantly higher than DIY. Working to reach out to nationwide fleets such as CarMax, Carvana along with door-to-door independents.
- To better drive margin, PRTS is working to avoid google. Focus has been on higher margin, more likely to repeat consumer. Brand awareness should drive consumer reengagement and conversion. 35% of revenue is derived from repeat ecommerce customers. Repeat customers and conversion drive better margins.
- PRTS came out of the 2008/2009 recession with flat revenue and should be recession resilient going forward. Recently, the company has seen some trade-down and deferral. Management believes that there may be some customers from ORLY and AZO that may be priced out and venture to carparts.com. Vehicle owners need to fix their vehicle and during a downturn may choose the cheaper product or transition to private label as PRTS does not believe there is significant DIY brand loyalty.



Dana Incorporated (DAN - \$11.33 - NYSE)

Flexibility and Resiliency

Year	EPS	P/E	Dividend:	\$	0.40	Current Return:	3.5%
2026P	\$ 1.41	8.1 x	Shares O/S:	145 Million			
2025P	1.12	10.2	52 Week Range:	\$15.07	-	\$7.58	
2024E	0.82	13.9					
2023A	0.84	13.6					

COMPANY OVERVIEW

Dana Incorporated, based in Maumee, OH, is a world leader in providing power-conveyance and energy-management solutions that are engineered to improve the efficiency, performance, and sustainability of light vehicles, commercial vehicles, and off-highway equipment. Enabling the propulsion of conventional, hybrid, and electric-powered vehicles, Dana specializes in the supply of driveline products (axles and driveshafts), power technologies (sealing and thermal-management products), and genuine service parts for light and heavy vehicle manufacturers.

HIGHLIGHTS

- Dana would not comment on press speculation that it was potentially exploring the separation of its Off Highway business, which is based in Europe and tends to have a more Euro-centric customer base than the rest of the company. The company noted the similarity of technologies across each of its end markets and its capability in areas such as metal cutting for gears across all markets. The major differences between its Light, Commercial and Off Highway businesses tend to be scale of platform the customer type, but Dana's capabilities remain the same. Subsequent to our conference, on November 25th, the company announced the exploration of the Off-Highway division's sale.
- In the near term, Dana is contending with some of its larger programs at major customers having larger than normal dealer inventory in the US. This issue, which has been building over the last several quarters, has led to several OEMs having to reduce production levels for 3Q and 4Q in order to think out dealer stock. Longer term, this speaks to a healthier and more disciplined environment within the automotive market. However, Dana as well as other suppliers noted that the issue was creating some revenue and earnings volatility given the lack of visibility into production schedules.
- Dana has continued to gain share across the light vehicle market – a difficult proposition that has been achieved due to the company's ability to assist customers from a full systems perspective (as opposed to simple component supply), helping to improve performance and drive launch and product rollout with great efficiency.
- Dana still believes that there is a strong place for electrification across the entirety of the mobility sector. By adding electrodynamics to core products, the company has helped drive EV adoption in some cases through a more seamless transition from Internal Combustion Engine to Electric. Dana expects to invest for future programs despite someone uncertainty in the near term regarding electric vehicle adoption.
- Regarding its commercial vehicle business, Dana is in line with broader industry expectations for lower Class 8 production in 2025, with the larger question being when and how a pre-buy ahead of January 1, 2027, when the EPA regulations kicks in. The broader sentiment is that 2025 will begin as a bit of a challenging year across the commercial vehicle spectrum as freight operators contend with lower spot rates in a difficult environment.
- We spoke at length about the company's recent operational strength, which included expanding margins despite considerable end market softness. Dana spoke to its ability to react quickly to changing market environments, particularly in a more benign inflationary environment. Additionally, the company is looking forward to a more level outlook for steel, where quick movements either up or down can cause earnings volatility.



Donaldson Company (DCI - \$78.07 - NYSE)

Life Sciences Future

<u>FYE 7/31</u>	<u>EPS</u>	<u>P/E</u>			
2027P	\$ 4.31	16.9 x	Dividend:	\$ 1.08	Current Return: 1.4%
2026P	3.98	18.3	Shares O/S:	122 Million	
2025E	3.62	20.2	52 Week Range:	\$78.95 - \$60.78	
2024A	3.42	21.3			

COMPANY OVERVIEW

Donaldson Company, based in Minneapolis, MN, is a global manufacturer of worldwide filtration systems and replacement parts. The company's products include air and liquid filtration systems and exhaust and emission control products. Donaldson has two reporting segments: a \$2.3 billion Mobile Solutions business, a \$1.1 billion Industrial Products segment, and a recently formed \$300 million Life Sciences segment.

HIGHLIGHTS

- The virtues of Donaldson's highly diverse model were on full display on Las Vegas, with chairman and CEO, Todd Carpenter, explaining that the company enjoys some insulations from geopolitical factors that are typically more impactful on most companies. With 65% of sales generated through the manufacture of replacement parts, the company tends to be less cyclical than peers in more volatile engine markets such as Commercial Vehicle.
- Further to that point, Donaldson is unlikely to see itself highly at risk should trade negotiations between the United States and China spiral into a more punitive trade war. The company does not source from China to the United States, with products manufactured in China either staying in country or are exported to Japan.
- Donaldson spoke to the opportunities ahead with his life, sciences, vertical, where the company has completed five acquisitions over the last five years, including its most recent acquisition of 49% of Medica, accompany that makes medical filters for kidney dialysis.
- Management reiterated its capital allocation priorities, which start with running the company as efficiently as possible before it would look for acquisitions. Return of capital happens thereafter via consistent growth in dividends and share buyback to offset dilution.
- Donaldson has earned increased market share with its aftermarket business, having recently announced the partnership with NAPA (GPC) as well as other areas where its filtration products have grown within the space. Part of the companies value proposition is its stability and predictability of on-time deliveries, given the critical nature of working efficiency within the automotive and commercial vehicle aftermarkets.
- The company continues to invest in technologies that bring it closer to its customers including predictive maintenance within filtration. Donaldson is assisting customers that want more granular data, as well as digitizing solutions to judge filter life, a complex issue that differs for every particulate that the company seeks to remove.
- Area of expansion within the engine filtration market includes hydraulics, where impurities and air need to be removed from hydraulic fluid.
- Donaldson regards its balance sheet in great shape and will look at any deals that involve filtration. The company spoke to the potential to go up to 3x net leverage should it have the desire to fund a large strategic opportunity if one presented itself.
- The company reiterated its desire to stay at expand its Life Sciences business, with technology being the driving factor behind targeted acquisitions.



Garrett Motion (GTX- \$8.47 – NASDAQ)

Turbo Resiliency

<u>Year</u>	<u>EPS</u>	<u>P/E</u>			
2025P	\$ 1.29	6.5 x	Dividend:	None	Current Return: Nil
2024E	1.09	7.7	Shares O/S:	215 Million	
2023A	(0.31)	NM	52 Week Range:	\$10.16 -	\$7.13
2022A	0.75	11.2			

COMPANY OVERVIEW

Garrett Motion, headquartered in Rolle, Switzerland, is a Tier 1 auto, commercial truck and off-highway vehicle supplier delivering differentiated solutions for emission reduction and energy efficiency. The company, which spun from parent Honeywell in October of 2018, is best known for manufacturing highly engineered turbocharging, air and fluid compression, and high-speed electric motor technologies for original equipment manufacturers. Products are sold for Internal Combustion Engines (ICE) using gasoline, diesel, natural gas and hydrogen, as well as for zero emission technologies using hydrogen fuel cell systems, both for mobility and industrial use.

HIGHLIGHTS

- Garrett's success in generating strong margins and free cash flow can be directly attributed to its commitment to technological differentiation. With customers requiring solutions to drive greater efficiency at hotter temperatures and greater rpm, GTX's focus on innovation has enabled the company to maintain pricing discipline. This, combined with operational efficiency, has provided the roadmap to greater profitability.
- Management views the turbocharger market as one that is growing outside of the traditional light vehicle industry, particularly in areas within industrial and data center markets where efficient power generation with continuous supply is critical.
- Garrett noted capabilities within electric motor and compressor markets as areas that will not only enable the company to participate in vehicle electrification but also areas that become sources of considerable growth for the company. For example, the company offers the largest portfolio of hydrogen compressors in the industry which, should the hydrogen industry prosper, could lead to uses across the space. Within motors, GTX high speed motors enable manufacturers to reduced powertrain size, particularly in larger vehicles (upwards of 300kg/axle on a heavy duty truck).
- Further, GTX spoke to compressor capabilities for centrifugal cooling that allow for battery cooling within vehicles. Ultimately, these technologies enable improved charging speed and battery performance that could also be applicable to other cooling needs. Cooling systems for EVs may take longer to implement than utilizing the same technology in the industrial space. For example, GTX is currently offering technologies for Chinese battery farms.
- GTX sees standardization of platforms and reductions in engine variants as a positive, particularly for ICE vehicles. As automakers look to become more efficient in manufacturing to free up capital for EV spend, the number of programs will decline while vehicles per program will increase. This will enable suppliers such as GTX to spread R&D dollars over larger sums of vehicles. Additionally, a reduction in platforms is likely to favor stronger suppliers like GTX, particularly within the turbo space.



Gentex Corp. (GNTX- \$30.70 – NASDAQ)

Building Back Margins

<u>Year</u>	<u>EPS</u>	<u>P/E</u>				
2026P	\$ 2.29	13.2 x	Dividend:	\$ 0.48	Current Return:	1.6%
2025P	2.09	14.4	Shares O/S:	235 Million		
2024E	1.86	16.2	52 Week Range:	\$37.58	-	\$28.30
2023A	1.84	16.4				

COMPANY OVERVIEW

Gentex Corporation, headquartered in Zeeland, MI, designs and manufactures vision systems, dimmable devices, connectivity and sensing systems for global vehicle markets. The company also manufactures dimmable aircraft windows for the aviation industry and commercial smoke alarms and signaling devices for the fire protection industry.

HIGHLIGHTS

- With over 90% market share in auto dimming electrochromatic mirrors, Gentex regards itself as a tech company that creates faster than opponents are able to chase from a technological perspective. The company believes itself to be less of an auto supplier and more an electrochemical company more closely resembling a pharma company with capabilities that include building its own circuitry and chemicals.
- The autonomous threat to the company, while real, is realistically decades in the future. Gentex is seeking to not only survive but thrive within an autonomous world with areas of growth such as dimmable visors and windshields.
- Gentex continues to look for ways to expand its gross margins back to the 35-36% range it enjoyed prior to COVID, though supply chain inflation has not fully abated. While suppliers have been able to get price to recover some gross profit, full margin recovery has not yet been achievable.
- Full display mirrors are expected to be a \$500 million revenue business for 2024 that began with high end SUVs and has democratized to volume import customers.
- The company has a game plan to combat tariffs should a greater protectionist trade regime become a reality again, with production moving out of China elsewhere in Asia a possibility. As a net exporter, GNTX would have concerns should China enact retaliatory tariffs.
- Within the Chinese market, pricing has been challenged by new entrants at the OEM and supplier level that have left GNTX considering certain customer relationships in order to defend pricing.
- Revenue is beginning to be meaningful in non-auto markets such as smoke detectors (a long time business), residential sensors, and certain applications within the med tech space including wearables. The company's HomeLink business is seeking to create an autonomous home infrastructure, having built a relationship with Alarm.com and other entities. Meaningful recurring revenue is unclear, though the company remains confident in its model.



Genuine Parts Company (GPC - \$127.53 - NYSE)

Technology Driven Global Distributor

Year	EPS	P/E	Dividend:	\$	Current Return:
2026P	\$ 9.14	13.9 x	\$ 4.00		3.1%
2025P	8.47	15.0	Shares O/S:	140 Million	
2024E	8.11	15.7	52 Week Range:	\$164.45 - \$112.74	
2023A	9.33	13.6			

COMPANY OVERVIEW

Genuine Parts Company, located in Atlanta, Georgia, is a premier global distributor of automotive and industrial parts. The automotive aftermarket parts business encompasses a network of ~10,000 global warehouses and jobber stores under the NAPA brand.

HIGHLIGHTS

- After successfully executing on a portfolio optimization strategy in which the company divested its electrical and office products several years ago, GPC has focused on the high-growth Automotive and Industrial segments. The automotive distribution business operates 9,715 global locations; including ~6,000 in the US. DIFM sales account for 80% of US NAPA revenue. The industrial segment, mostly marketed under Motion, sells to the conveyance, automation, robotics, and power transmission end markets. Both segments are break/fix businesses that are largely non-discretionary and operate in large, fragmented markets. Each have less than 10% share globally. New CEO, Will Stengel, is only the 6th CEO of the company's +100 year old history and has focused the company on culture, technology and supply chain.
- GPC is driving investment (capital expenditures) from 1% of revenue to 2%. The company will focus on three layers: foundational (70%), growth (20%) and innovation (10%). Foundational investment drive distribution center excellence and supply chain automation. These investments drive improved execution of the business strategy and medium term returns. Growth investment includes data catalogue that underpins how customers find parts and optimize business operations.
- GPC is the leading player within the Industrial segments the company operateds within. However, the US Industrial market is in the longest contraction cycle in the 21st century. Due to its leading position, GPC is well positioned for the eventual rebound. The Industry, experienced some improvement, especially in response to tailwinds such as reshoring; however, market uncertainty, in particular election and therefore regulatory uncertainty drove some pullback in spend. Going forward, clarity could act as a significant catalyst.
- US automotive now accounts for 56% of total revenue. After NAPA generated double-digit annual growth rates by entering New Zealand and Australia, the company entered Europe in 2017. The company has been growing the European division since, including the recent acquisitions of two of the largest players in Spain. The benefits of being in Europe are significant. The maturing electric vehicle (EV) market in Europe provides insights into change and growth in other regions. Further, the company is able to drive gross profit via penetration of the NAPA brand.
- The automotive segment, 60% of revenues, operates 150 distribution centers globally. This distribution system ensures that the 6,000 store base, which are simply nodes of the complex distribution network, meets customer needs of having the right part at the right time in the right place, with immediacy. 80% of the customer base is DIFM and the majority of parts sold are non-discretionary. The complicated supply chain and non-discretionary demand allows the company to drive price during period of inflation, including potential tariffs.
- GPC has the opportunity to optimize its store structure by transitioning a portion of its 4,000 independent store base to corporate stores. The process drive improved gross margins and better store execution through the process.



Monro, Inc. (MNRO - \$28.06 - NASDAQ)

It's All About The Customer Experience

Year	EPS	P/E	Dividend:	\$	Current Return:
2026P	\$ 1.08	25.4 x		1.12	4.1%
2025P	0.88	31.2	Shares O/S:	31 Million	
2024E	1.33	20.6	52 Week Range:	\$33.98 - \$21.00	
2023A	1.36	20.2			

COMPANY OVERVIEW

Monro, Inc. headquartered in Rochester, NY, is the largest chain of company-operated undercar care facilities in the United States, operating 1,288 stores in thirty-two states. The company operates in the combined \$310 billion “Do-It-For-Me” (DIFM) and Tire segments of the \$390 billion U.S. Automotive aftermarket industry.

HIGHLIGHTS

- Monro is the only publicly traded full service provider in the industry. MNRO’s sweet spot are those vehicles aged 6-12 years old with a 50% mix of tire to service revenue. The sweet spot has been growing due to the aging car parc and the higher price tags of both used and new vehicles. Customers will choose to maintain their vehicle over buying a new vehicle at these price points.
- The company operates across 32 states East of the Mississippi River and California. MNRO’s customer tends to be the 2nd to 3rd car owners that leaves the dealership service center for better value in the independent aftermarket. The average ticket is \$250 which is large for the company’s typical customer – a family that makes less than \$100,000 annual income. Customers come in around 1.6x per year. MNRO is focused on ensuring that customer sees the value in the completed work.
- Going forward, MNRO has multiple strategic initiatives to drive growth. The company has a long-term plan to drive double-digit growth in the bottom 300 (25%) underperforming stores along with improvements in customer experience. A renewed focus is driving customer trust. MNRO is looking to emulate the OE “tablet” to better communicate the need for different services and the value behind them. While oil changes bring down the average ticket, they are a powerful source for growth, driving customer traffic and potential conversion. The inspection process can identify other issues and drive customer value.
- The company experienced the same double-digit hyperinflation as the rest of the aftermarket. However, during this same period MNRO chose to invest in paying appropriate wages to higher trained technicians, while limiting the inflation passed on to the end customer. As prices went up, consumers traded down and did not accept pricing. By limiting price increases on the customer, MNRO believes they drove customer lifetime value.
- As costs moderate, margin pressures should alleviate and the customer should return – improving trade down and deferral. While there has been significant trade down to Tier 4, MNRO believes the industry should focus on driving Tier 1-3 share. The company has worked with manufacturers to get the best price for the Tier 1-3 customer improving MNRO’s volume, margin and customer lifetime value. Post the 2008 deferral cycle, MNRO saw outsized growth from 2009-2011 which they believe will occur during this cycle.
- The company has tremendous amount of opportunity to drive margin by leveraging the fixed assets across the 1300 store base. The company believe that driving traffic and ticket via the inspection process will leverage these assets. Gross profit margin had reached 41% pre-Covid, but for now the company is targeting 38-39%, or ~300 bps of margin expansion in response to execution and improving trends.
- Acquisitions were previously a focus across the 1,300 store base. The focus has been on structuring a strong business. Given MNRO’s balance sheet and improving business, acquisitions can drive growth in the future.
- Hiring and maintaining technicians has been extremely competitive. MNRO’s strategy has placed them in a strong competitive position for the future. Further, vehicle complexity and the penetration of electric vehicles should drive growth in MNRO’s core categories; tires, brakes and suspension due to the weight and torque of electric vehicles.



Motorcar Parts of America (MPAA - \$7.71 - NASDAQ)

Right Part, Right Place

<u>FYE 3/31</u>	<u>EPS</u>	<u>P/E</u>			
2026P	\$ 0.91	8.4 x	Dividend:	None	Current Return: Nil
2025P	0.56	13.6	Shares O/S:	21 Million	
2024E	0.41	18.6	52 Week Range:	\$10.40 -	\$4.36
2023A	0.64	11.9			

COMPANY OVERVIEW

Torrance, CA-based Motorcar Parts of America, Inc. is a leading manufacturer, remanufacturer, and distributor of rotating electrical parts including alternators and starters for the automotive aftermarket. As a result of recent acquisitions, MPAA has expanded its product line to include remanufactured undercar components such as steering components, brakes, clutches and wheel hubs. MPAA sells its products predominantly in North America to the largest auto parts retail and traditional warehouse chains and to major automobile manufacturers for both its aftermarket programs and its warranty replacement programs.

HIGHLIGHTS

- MPAA offers 33,300+ SKUs sold in more than 25,000 outlets across the US and Canada. The company has traditionally focused on the \$130 billion non-discretionary replacement hard parts categories. New product lines have increased exposure to heavy duty, diagnostics, hybrid and electric vehicle. MPAA covers all part numbers in the effort to fill installer demand across the 220,000 different variety of vehicles on the road and their respective immediacy of need. The company provides value via this expansive inventory and product mix, category and inventory management, including business plans for new product lines, pricing strategies, training programs, and more.
- Underlying products are split 55% DIFM, 45% DIY, mirroring the large retailers share which account for 80% of MPAA's share. The majority of parts are non-discretionary, hard parts. MPAA holds 49% of rotating electrical share, 18% in wheel hubs and 23% in brake calipers. Recent investments in the \$10 billion brake pad and rotor market offers a \$300 million, or an additional 40%, revenue growth opportunity over the next few years. The company has been able to focus on categories that are agnostic to engine type with growth opportunities going forward.
- The company has seen some margin compression over the last few years as the ramp up of the above new product lines compresses results in the shorter term, but should be accretive in the long-term. MPAA expanded manufacturing capacity in Malaysia and Mexico over the last few years. The company has just now reached revenue levels and capacity that absorb the overhead and leverage the current 1.3 million square feet with opportunity to drive future margin. Current ~20% gross margin levels can expand to mid-20% levels.
- The consumer is pressured; however, the majority of products are fully non discretionary. If an alternator or starter fails, you have to replace it. There is some deferral in brake pad and rotor business; however, eventually you have to replace brakes. Despite some market weakness, MPAA is growing and seeing significant traction in brake opportunities.
- MPAA participates in the retailer's supply chain factoring programs. Every point increase/decrease in interest rates drives \$7 million of income/expense. The company does not expect to return any price increases from the last few years as interest rates compress in the near term, in the expectation of driving margins to pre-COVID levels. The company has installed its own factoring programs for its supplier base to offset these costs which could drive additional cash flow and earnings improvement.
- The car parc has aged to an average of 12.5 years and is in its prime for replacement parts. Further, there is no used/new vehicle inventory, which is keeping the vehicles on the road longer, and consumers are investing in their current vehicles as the costs of buying are high. Older vehicles along with more complex vehicles are driving replacement rates and the value of parts sold by MPAA (example: high output alternators needed to support new technologies).



MP Materials (MP - \$20.81 - NYSE)

Transition to Production Capabilities

<u>Year</u>	<u>EPS</u>	<u>P/E</u>			
2026P	\$ 0.95	21.9 x	Dividend:	None	Current Return: Nil
2025P	0.01	NM	Shares O/S:	21 Million	
2024E	(0.39)	NM	52 Week Range:	\$23.84 -	\$10.02
2023A	0.39	53.4			

COMPANY OVERVIEW

MP Materials is the owner and operator of the Mountain Pass Rare Earth Mining and Processing facility, the only integrated site of its kind in the Western Hemisphere. MP Materials produces approximately 15% of global rare earth materials, essential for the development of technologies such as defense systems, smartphones, drones, and electric vehicles. It operates a “green” mining and processing facility and is currently one of the lowest-cost producers of rare earth concentrate. The company has begun operations to refine rare earth metals, and will soon produce permanent magnets, with shipments beginning in 2025.

HIGHLIGHTS

- With lithium becoming abundant from a “fuel” perspective for electric vehicles, the company sees the market for EVs shifting from a more fuel dependent supply to one predicated on the availability of minerals for its supply chain.
- MP is now the second-largest producer of rare earth elements globally, and as a vertically integrated producer, it will soon be providing permanent magnets to GM, with first shipments beginning in 2025. Apart from Electric Vehicles, Wind Turbines are also well known use cases for rare earth magnets and continues to be a growth vector for the company.
- While pricing of rare earth elements like NdPr have caused material swings in both sales and EBITDA, MP sees the broader market in a material supply mismatch to meet expected demand over the next 15 years – this will require significant investment along with the discovery of additional ore bodies.
- Currently, primary concentration of rare-earth magnets and mineral exists in China. This makes the country’s domination of the space a threat to global supply chains and another reason as to MP’s criticality for the global market.
- MP sees its Mountain Pass mine as a very strong ore body with the ability to increase production by 50% over the next 4 years.
- MP’s midstream operations look to optimize NdPr production, with current refining capacity existing exclusively in China. MP expects to sell primarily to Japanese and Korean battery manufacturers. MP is likely self-cannibalizing some business meant for outside refiners that it currently puts through sub-scale operations, a factor it believes to be temporary.

While tariffs create risks within the global supply chain, MP sees the need



Myers Industries (MYE- \$11.90 - NYSE)

Transforming Moldings

Year	EPS	P/E	Dividend:	\$	0.54	Current Return:	4.7%
2026P	\$ 1.58	7.2 x	Shares O/S:	37 Million			
2025P	1.17	9.8	52 Week Range:	\$23.63	-	\$10.35	
2024E	0.95	12.1					
2023A	1.39	8.2					

COMPANY OVERVIEW

Headquartered in Akron, Ohio, MYE is a leader in the manufacturing of plastic reusable material handling containers and pallets, and plastic fuel tanks as well as the largest distributor of tools, equipment and supplies for the tire, wheel and under-vehicle service industry in the United States. MYE plastic bulk containers replace single-use packaging, reducing waste and improving sustainability. MYE reports operations in two core segments: Material Handling and Distribution. The Distribution Segment centers on the global distribution of tire repair and retread products. Material Handling and Distribution. In 2023, the Material Handling segment contributed \$555 million of revenue while the Distribution segment generated \$260 million of revenue.

HIGHLIGHTS

- Over the last 5 years, MYE has nearly doubled TTM revenue to \$824 million. Many of MYE brands hold the 1st or 2nd largest market positions in niche markets. MYE operates two business segments, material handling and distribution. The material handling segment consists of two portfolios, the 1st focuses on storage handling and protection and has significant growth opportunities. The second, engineering solutions, consists of custom, designed and tailored solutions to meet our customers unique needs.
- New management has focused on the marketing, sales and customer excellence of the Power Brands and optimizing production. Reviewing the business 3-4 years ago, the businesses lacked capital and there were execution issues. Going forward, with this better infrastructure, the company can review new lines and product extensions.
- More than 80% of profits come from 4 brands within the Material Handling segment, which MYE refers to as power brands: Acro Mills, Buckhorn, Scepter and Signature Systems. For example: Buck-Horn, which supplies large format boxes to the seed industry, has 90% market share in this business line. These brands are in growing industries and have +20% EBITDA margins.
- MYE is expanding their product offerings through their e-commerce channel which is growing faster than the industry. Average continued investment in the aforementioned power brands and the e-commerce channel should fuel future growth.
- MYE acquired Signature for \$350 million in 2024. Signature is expected to grow at a +10% annualized CAGR. At +25% EBITDA margin, Signature should benefit from the transition from wood to plastic (similar to other Power categories within MYE portfolio) and has a significant competitive moat. Further, MYE is expecting \$8 million in synergies, mostly from purchasing, as there is significant overlap with the underling composite and plastics composition.
- The company is currently holding ~3x net debt/EBITDA. The company is focused on getting to under 2x by the end of 2026 which would reduce the current \$30 million interest burden. After 2026, the company would be interested in further acquisition opportunities similar to Myers.



NN Inc. (NNBR - \$4.25 - NASDAQ)

Quality at the Right Price

<u>Year</u>	<u>EPS</u>	<u>P/E</u>			
2026P	\$ 0.06	69.5 x	Dividend:	None	Current Return: Nil
2025P	(0.01)	NM	Shares O/S:	52 Million	
2024E	(0.21)	NM	52 Week Range:	\$5.40 -	\$2.49
2023A	(0.29)	NM			

COMPANY OVERVIEW

NN Inc., based in Charlotte, North Carolina, designs and manufactures high-precision components and assemblies for a variety of end markets on a global basis. The company, which has just under 30 facilities in North and South America, Europe, and China, organizes its businesses into two segments: Mobile Solutions and Power Solutions.

HIGHLIGHTS

- NN management sees opportunity ahead in its turnaround by expanding partnerships with Tier 1 auto suppliers, growing into the rollout of Electric Vehicles, and expanding its presence in the medical device ecosystem.
- With BYD as the company's largest customer, NNBR is uniquely exposed to growth of the electric vehicle industry in China, with construction ongoing as part of its 4th facility in the region.
- Acknowledging a difficult financial past for the company, part of the challenge ahead for NNBR will be to improve underlying operational discipline to drive profitable growth and ultimately put the company in solid position to make material changes to its balance sheet.
- The company is working its way back into the medical device industry, having seen the non-compete for operations it has sold four year ago expire. Orthopedics present an area where the same machines as used in auto applications can be used for components sold at attractive prices and margins.
- NNBR has line of sight of \$100 million of net new business wins within the vehicular space on platforms that are set to begin operations in two to three years. Steering presents perhaps the biggest opportunity ahead (both front and year), with parts per vehicle consistently rising. Additionally, areas such as electrical shielding to prevent interference within vehicle systems also presents areas for growth.
- The company sees itself as roughly 50% into a turnaround one year into its plan, looking to adjust unprofitable plants with lack of delivery discipline and overstaffing. With growth being the biggest obstacle, NN sees it as having reached a critical inflection point.
- From a balance sheet perspective, the company is looking into ways to gradually refinance its preferred debt, though acknowledged it will take time.



O'Reilly Automotive, Inc. (ORLY - \$1,246.82 - NASDAQ)

Driving Outperformance

Year	EPS	P/E	Dividend:	None	Current Return:	Nil
2026P	\$ 50.42	24.6 x	Shares O/S:	59 Million	52 Week Range:	\$1,255.40 - \$914.50
2025P	44.95	27.6				
2024E	40.89	30.3				
2023A	38.47	32.2				

COMPANY OVERVIEW

O'Reilly Automotive, Inc., headquartered in Springfield, MO, is one of the largest specialty retailers of automotive aftermarket parts, tools, supplies, equipment and accessories in the United States. The company sells to both the DIY (Do-It-Yourself) and DIFM (Do-It-For-Me) markets. As of September 30, 2024, O'Reilly operated 6,291 stores in 48 states, Puerto Rico, Mexico and Canada.

HIGHLIGHTS

- ORLY has driven significant growth since the company's inception in 1957. The focus has always been on robust distribution and parts availability. Given this history, ORLY's distribution model is based on data targeted at local markets. Proprietary systems focus on individual store locations that hold 27-28,000 SKUs and have access to millions of parts across the network. This tiered distribution network of 30 distribution centers (average 152,000 SKUs), 385 hubs, and over 6,200 stores provide competitive advantages that meet customer needs of immediacy and availability.
- Operating within a ~\$155 billion industry, ORLY has significant room to drive share gains. While DIY (53% of revenues) is more consolidated, DIFM (47% of revenues) is highly fragmented. ORLY has outperformed public competitors by a ~300 bps comp YTD as investments made over the last few years of volatility have driven further operational improvement, including superior inventory and availability. Share gains from the last few years of market turbulence and supply chain issues appear to be sticky and driving both ORLY's outperformance over smaller WDs and its larger public peers.
- Regional growth opportunities will augment ORLY's current organic growth path. ORLY has been in Mexico for 5 years and opened a large distribution center in Guadalajara in 2023 to drive growth. Mexico has an older average age of vehicles and worse roads driving more repair. Further the market is fragmented with large M&A opportunities. The company also opened a distribution center in Virginia, which can service 350 stores in the area. This provides ORLY further opportunity to grow within its domestic whitespace of the Northeast and Mid-Atlantic regions. The company continues to see significant opportunity for growth in the US with 1/3 of the US population untapped.
- Despite +10% inflation in costs over 2021-2023, ORLY maintained gross profit margin of +51% while pushing through price. Only a small part of ORLY's business would be considered discretionary. ORLY's end-customer needs a car to get to work, take kids to school, etc. The success of ORLY's commercial customer, the shop, is based on having the right parts at the right time. The value proposition is not price. This allows ORLY to take price during periods of inflation. YTD 2024, the company has only experienced ~1% price inflation; however, the industry expects higher inflation in 2025 and beyond.
- The current consumer is deferring and saving where possible. Going forward, the company expects that there is backlog of work that eventually gets done. ORLY has typically performed well in "recessionary" type environments where there are periods of uncertainty as depicted by a 1.5% and 4.6% comp in 2008 and 2009 respectively. These periods of uncertainty provide more incentive to make repairs where the value proposition of maintaining over buying a vehicle is strong.
- Over the last five years, ORLY averaged 20% annual earnings growth on 11% revenue growth. While the company is required to invest in a massive distribution system of inventory that only turns at 1.7x, its competitive moat has led to a 22% EBITDA margin and ~\$2 billion in free cash that is returned to shareholders via repurchases and investments in growth.

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Penske Auto Group, Inc. (PAG - \$167.46 – NYSE)

Resiliency Through Diversity

<u>Year</u>	<u>EPS</u>	<u>P/E</u>			
2026P	\$ 14.20	11.8 x	Dividend:	\$ 4.09	Current Return: 2.4%
2025P	14.15	11.8	Shares O/S:	67 Million	
2024E	13.53	12.4	52 Week Range:	\$179.72 - \$142.32	
2023A	16.10	10.4			

COMPANY OVERVIEW

Penske Automotive Group, headquartered in Bloomfield Hills, MI, is a diversified international transportation services company that operates automotive and commercial truck dealerships principally in the United States, Canada and Western Europe, and distributes commercial vehicles, diesel engines, gas engines, power systems and related parts and services principally in Australia and New Zealand.

HIGHLIGHTS

- Gross profit per unit (GPU) remains well above pre-pandemic levels and is likely to stay higher for several reasons. With inventory sitting at 1 million units less than the 3.7 million of March 2020, the company regards the amount of vehicles on dealer lot as appropriate. Additionally, higher average selling prices (ASPs) will play a role in keeping absolute dollar GPU numbers at a higher level, driving cash flow and return capital to shareholders for Penske.
- Market discounting is taking place on Battery Electric Vehicles (BEVs), which are not moving without considerable discounting and incentives from auto makers. Penske believes that the current stall in demand is due to several factors, including the thought that early adoption has likely already taken place and the fight has begun to win over ICE owners. Additionally, challenges for BEVs in colder climates during the winter or hotter areas during the summer have shown battery ranges to be considerably lower than otherwise advertised. Automakers will need to convert skeptical users for growth to resume.
- More recently, potential BEV buyers have been choosing hybrids as an alternative. This contrast with other markets, such as the United Kingdom, where legislation has been enacted to punish Automakers up to £15,000 per vehicle, should they not get to a zero emissions mandate. This is ultimately created an environment where Automakers can incent at a considerably higher level to drive adoption.
- Penske has benefited within its service division from greater warranty work as vehicle complexity and sensor proliferation has brought additional P&S work. Further warranties on BEVs are typically longer than ICE vehicles, driving dealer attach rates. The lessons from Toyota's airbag and unintended acceleration issues have led OEMs to offer more bumper-to-bumper protection and to move forward with stop sales more quickly than ever before.
- PAG sees opportunities in Australia in auto and its Distribution business. Regarding the former, Penske recently added three Porsche dealerships in Melbourne Australia, operations with solid profitability and a dominance of the Melbourne market. Additionally, PAG's Power Systems business within Australia is providing engine and parts for industrial customers in areas such as data centers and other growth markets. These engines also are used for military operations, including submarines and ships with 80% of the business being parts and service.
- The company continues to drive the ecommerce experience, notably within its used car offerings on penskecars.com. PAG partners with manufacturers to install purchase processes commensurate with other online retailers and has embraced other tools within the sales funnel to help digitize the process, including offering Finance and Insurance items that further integrate the online experience with its customer base. Challenges in the used vehicle market are likely to persist for at least another year as the number of vehicles coming off lease or between 1 and 5 old is limited due to lower sales during 2020-2022. GPUs appear to have found a floor, assisting with earnings predictability.
- The company's \$4 billion Premier Truck Group, which has over 40 Freightliner dealers selling medium and heavy duty trucks, has been outstanding from a diversification perspective. The business, which generates 65-70% of its gross profit coming from Parts & Service, enjoys higher return on sales than its franchise dealer counterpart.

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PHINIA, INC. (PHIN) - \$56.30 – NYSE)

Growth in Aftermarket

Year	EPS	P/E			
2026P	\$ 5.55	10.0 x	Dividend:	\$ 1.00	Current Return: 1.8%
2025P	4.74	11.8	Shares O/S:	47 Million	
2024E	4.12	13.5	52 Week Range:	\$57.23 -	\$26.08
2023A	4.13	13.5			

COMPANY OVERVIEW

PHINIA Inc., based in Auburn Hills, Michigan, is a leader in the development, design and manufacture of integrated components and systems that are designed to optimize performance, increase efficiency and reduce emissions in combustion and hybrid propulsion for commercial vehicles and industrial applications (medium-duty and heavy-duty trucks, buses and other off-highway construction, marine, agricultural and industrial applications) and light vehicles (passenger cars, trucks, vans and sport-utility vehicles). The company offers a wide range of original equipment service (OES) solutions and remanufactured products as well as an expanded range of products for the independent (non-OEM) aftermarket

HIGHLIGHTS

- PHINIA's spin from BorgWarner (BWA) has allowed it the freedom to reinvest in pieces of the business deemphasized by its former parent (such as Commercial Vehicle and Industrial), while at the same time growing its aftermarket business and building out its capabilities within the commercial vehicle and off highway markets. Long term, the business wins PHINIA currently sees and expects to continue should in someways offset any shift in propulsion towards EVs and away from ICE vehicles.
- With approximately 1/3 of its business aftermarket-related, the company sees avenues to grow market share as competitors exiting the space is enabling the company to grow profitably, with decreased competition providing the potential to increase profit margins. PHINIA spoke to its Delphi brand and its strength in the marketplace, operating within the premium product space. As the DIFM market continues to value quality brands like Delphi, opportunities to expand within the space should be prevalent.
- Conservatively levered at just 1.1x times with the ability to get to 1.5x, PHINIA is looking at a long pipeline of deals, though the company maintains a desire to stay disciplined. Growth through M&A will not simply be for the sake of increased revenue.
- The company spoke to some potential to grow in markets outside of vehicular areas, including industrial markets as well as in aerospace. Management expressed where they expect Aerospace-quality certification and Q1 or Q2 of 2025.
- Management spoke to the opportunity ahead as Automakers look to reduce engine complexity and drive greater throughput per platform. This would enable ICE engine suppliers such as PHINIA to reduce capital intensity and generate scale benefits by increasing volume per program.
- The company is preparing for potential tariffs through a variety of avenues, most notably looking to source within selling regions. Further, PHINIA enjoys a global engineering bases that work to meet local demands. Ultimately, any renegotiation of the USMCA and North America trade agreements will be adjusted to as efficiently as possible.
- Regarding efficiency, PHINIA has culled a number of aftermarket parts that were not meeting return requirements. Further, management is aligned with investors, as its own management bonus structure is based on creating economic value that allows it to walk away from business returns are not sufficient.



Rush Enterprises (RUSHB - \$57.24 - NASDAQ)

Share Gains to Continue

<u>Year</u>	<u>EPS</u>	<u>P/E</u>			
2025P	\$ 4.15	13.8 x	Dividend: \$0.72	Current Return:	1.3%
2024E	3.65	15.7	Shares O/S:	81 Million	
2023A	4.15	13.8	52 Week Range:	\$58.61 -	\$37.85
2022A	4.34	13.2			

COMPANY OVERVIEW

Rush Enterprises, Inc. is a full-service, integrated retailer of commercial vehicles and related services in the U.S. and Canada. Through a nationwide network of truck centers, the company sells new – and to a lesser degree – used Class 4-8 vehicles – along with ancillary services including aftermarket parts and repair, financing, lease and rental, and insurance. We estimate the company will earn \$4.05 per share on \$7.9B of revenue and \$565M of EBITDA in 2023E.

HIGHLIGHTS

- Rush believes the 24-month freight recession that has negatively impacted Class 8 over the road truck sales is finding a bottom, with some optimism that orders may soon inflect positively. With Class 8 inventory at an all-time high, Rush does see some improvement on the horizon as manufacturers have cut production. The company has not seen material discussions with customers about tax planning based on bonus depreciation as the current freight environment has created more of a “survival”-based approach to truck purchasing.
- Rush has not yet seen signs of a prebuy ahead of EPA regulations set to begin January 1, 2027. These regulations are expected to increase the cost of a Class 8 truck by at least \$15,000, half of which consists of increased warranty costs. Rush expects the pre-buy to begin in earnest in mid-2025.
- Rush sees strength in vocational trucks to continue through 2025, with particular markets such as refuse and construction to remain resilient. This past year RUSHB was sold out on vocational slots for the entire 2024 calendar year by June.
- Nearshoring continues to benefit the company and the trucking industry at large, though potential impacts related to tariffs from the incoming administration are too early to understand.
- Regarding Traton, the parent of Navistar and maker of International-branded trucks, Rush believes the current product to be sufficiently strong to assist with the company regaining share that Navistar had lost a decade ago.
- The company continues to see its used business, where trucks remain undervalued to a degree, offsetting the current softness on new. Similarly, Rush’s leasing business is generating solid returns (a business the company runs conservatively).
- Regarding electrification, Rush believes the medium market will turn to EV’s “when they have to” and that market demand remains tepid.
- Parts remain the profit center of the company, with the “best network” among any dealership group in the aftermarket. Rush has seen that business compound over time, with components of the business from a labor perspective transitioning to mobile service now with a true emphasis on the customer.
- Rush remains in hunting season for M&A, with some room with International dealerships (it cannot grow with Peterbilt contractually). Targets would be those that expand geographical reach.

Standard Motor Products (SMP - \$33.83 - NYSE)

Rev Your Engines

Year	EPS	P/E	Dividend:	\$	Current Return:
2025P	\$ 3.42	9.7 x		1.16	3.5%
2024E	3.07	10.8	Shares O/S:	21 Million	
2023A	2.92	11.4	52 Week Range:	\$41.71 - \$26.09	
2022A	3.59	9.3			

COMPANY OVERVIEW

Standard Motor Products, Inc., located in Long Island City, NY, is a manufacturer and distributor of replacement parts for motor vehicles in the automotive aftermarket industry. The company operates three segments, Vehicle Control, Temperature Control, and Engineered Solutions and sells its products to warehouse distributors and retail chains, primarily in the United States, Canada, and Latin America, as well as in Europe.

HIGHLIGHTS

- SMP generates over \$1.4 billion in sales of which \$1.1 billion is in the North American automotive aftermarket. SMP operates as a top five supplier for the majority of the large national and smaller regional distributors. The majority of products sold are non-discretionary parts to the commercial (professional installer) customer. SMP's products are primarily branded and the company's significant investment in technology is a differentiator.
- The company has grown revenues 20% since 2019 by meeting customer demand and achieving market-winning fill-rates during volatile periods. Relative to many peers in the space who are reselling products, SMP has always been committed to manufacturing. Over 2/3 of SMP's supply chain resides in North America. On top of M&A, good customer relationships and a reputation dedicated to long-term aftermarket commitments has enabled the company to grow with their customers.
- Currently, SMP manufactures +60,000 part numbers to provide all of the required parts for their DIFM customers along with providing exceptional service with a strong reputation. The supplier provides all of the parts for the cars on the road compared to other competitors, which cannot manage a technician's entire catalog. Further, SMP manages thousands of emergency orders daily.
- The company has acquired multiple businesses over the last decade with the largest deal closing in October 2024: Nissens Automotive for \$390 million. Generating \$263 million in annual revenue, Nissens is a large European aftermarket manufacturer. With 84% exposure to AC and engine cooling categories and 16% to engine efficiency, operations mirror those of SMP, that mirrors US operations.
- 55% of SMP's business is vehicle control, which not only manufactures engine components, but also vehicle sensors and electronics including the fast-growing ADAS, anti-lock braking, and tire sensor categories. A significant portion of the company's business is directed towards the DIFM segment, which is expected to grow due to the increasing complexity and technical nature of these vehicle parts. Vehicle complexity is a catalyst across all segments.
- 25% of sales is the temperature control business, an engine agnostic category. SMP is committed to developing and growing parts that benefit from more advanced ICE vehicles and the introduction of EV vehicles as these vehicles require more enhanced cooling systems. EVs need more temperature control or batteries and inverters.
- The company recently broke out a new division, Engineered Solutions, which is ~20% of revenue. This group highlights opportunities outside of the traditional aftermarket including investments in commercial vehicle, agriculture, light vehicle and power sports. Specialized products have more stable technology, less competition and highly fragmented end-markets. These lines are either powertrain-neutral or focus on alternative fuel vehicles.
- Increased factoring costs in response to higher interest rates have pressured SMP's long stable EBITDA margin; however, the recent decrease in interest rates should act as an earnings catalyst going forward.



Strattec Security Corporation (STRT - \$42.57 – NYSE)

Tech to be Unlocked

<u>Year</u>	<u>EPS</u>	<u>P/E</u>			
2026P	\$ 2.78	\$.9 x	Dividend:	None	Current Return: Nil
2025P	2.76	15.0	Shares O/S:	4 Million	
2024E	4.07	10.2	52 Week Range:	\$43.27 -	\$20.87
2023A	(1.70)	NM			

COMPANY OVERVIEW

Headquartered in Milwaukee, Wisconsin, Strattec Security Corporation designs, develops, manufactures, and markets automotive access control products under the VAST Automotive Group brand primarily in North America. The company provides mechanical and electronically enhanced locks and keys, passive entry passive start systems, steering column and instrument panel ignition lock housings, latches, power sliding side door systems, power tailgate and lift gate systems, power deck lid systems, door handles, and related products. It also offers full service and aftermarket support services for its products.

HIGHLIGHTS

- New CEO Jen Slater sees three primary initiatives for Strattec as she begins her journey as the company's CEO. First, Slater is seeking to reimagine the product portfolio around systems solutions set to grow with the next generation of vehicles, phasing out areas in decline. Strattec will also seek to improve operational efficiency to drive greater throughput while also bringing in new talent to drive the organization forward.
- Expanding upon opportunities ahead, Slater sees the potential to implement new processes to improve inventory, unlock unreturned customer tooling, and to grow the power access business in such a way as to offset the melting ice cube of its lock and key business.
- Strattec sees customer expansion as a critical area to expand upon over the next several years, as little time has been spent attempting to grow outside of its current North America-centric customer footprint. As a powertrain agnostic supplier, Strattec is hopeful to grow its footprint.
- Vehicular automation has been a critical reason for the success of the company's power liftgate and other actuation applications.
- While focusing on its core automotive applications, Strattec does see opportunities in heavy vehicle and off highway applications for its technologies.
- Slater will be instituting more proactive operational reviews to align the company more functionally at the enterprise level, having moved away from its former organizational structure by product.
- STRT is currently roughly 30% hedged against the peso, with Mexican labor inflation continuing to be a difficult line item to which it must adjust. OEM pricing has largely caught up to this point, making year over year comparisons more difficult and requiring Strattec to find more efficiencies elsewhere.
- Strattec's ADAC JV continues to operate well, though the company does see opportunities to improve margins (Strattec has operational control, while ADAC has sales and engineering control).
- M&A does not appear to be on the company's current top list of priorities given operational challenges that need to be addressed. With zero debt at the parent organization, the company is well positioned from a capital standpoint.

Save the Date!

49th Annual

Automotive Aftermarket Symposium

Las Vegas

Attention:	Portfolio Managers/Analysts
Symposium:	Automotive Aftermarket
Place:	TBD
Dates:	2025
Contact:	Brian Sponheimer (914) 921-8336 bsponheimer@gabelli.com

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