

# Interview: Houlihan Lokey on automotive aftermarket M&A trends

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**The global investment bank says it is witnessing a shift in aftermarket M&A activity from the enthusiast sector to the replacement parts subsector on the back of an aging car parc.**



M&A has continued to play a significant role in the automotive aftermarket with companies utilizing the route to build scale and consolidate fragmented industry segments. The aftermarket sector has remained a hotbed of investor activity for several years, with transaction values surging in 2021 in the post-COVID era.

After three years of range-bound movement, deal volume rose to 437 deals in 2021 with disclosed value touching \$27.7 billion, up from 301 deals and \$12.9 billion in 2020, according to Houlihan Lokey, a global investment bank headquartered in the US with expertise in M&A. The next two years saw dealmaking return closer to pre-pandemic levels with 2023 bringing 300 deals in the automotive aftermarket and disclosed value touching \$10 billion, according to Houlihan Lokey's first half of 2024 automotive aftermarket update.

Even as dealmaking is off its peak, well-capitalized buyers continue to pursue quality businesses. Strategic buyers are on the lookout for target companies that offer operational synergies, complementary products and services, or geographic expansion. However, the high interest rate environment has made them more selective about paying premium valuations.

People are holding onto their cars longer and putting more money into maintaining their current vehicles, leading to increased activity around non-discretionary areas such as replacement parts and repair services away from consumer discretionary segments, Cory Hebenstreit, a director in Houlihan Lokey's Industrials Group disclosed to S&P Global Mobility in an interview. Hebenstreit adds that the strong outlook for dealmaking expected for the latter half of 2024 will carry into the next year, as companies continue to look for strategic opportunities to grow.

The following is an edited excerpt of the interview.

**S&P Global Mobility: How would you describe the aftermarket M&A activity so far this year? Can you provide some insights into recent activities? Can you elaborate on some of the key trends in dealmaking that have emerged?**

**Cory Hebenstreit:** Aftermarket M&A activity this year has been largely focused around non-discretionary areas such as break or fix parts, and repair services. We have observed a decrease in activity within consumer discretionary segments, given there is a tie to prevailing interest rates. As new vehicle purchases become more expensive, people are holding onto their cars longer, leading to increased spending on maintenance as the average age of vehicles ticks up. Somewhat unsurprisingly, the enthusiast sector has been relatively more volatile than other subsectors within the aftermarket, given the discretionary nature of parts and sensitivity to consumer spending.

In terms of trends, one of the biggest we've noticed is a significant uptick in activity over the last six months, particularly when comparing the first half of 2024 to the latter half of 2023. Sequentially, we expect the back half of 2024 will be much busier, with more deals closing and new ones being launched.

The increase in M&A activity is partly due to a more positive economic outlook and companies' adaptation to persistently high interest rates. Organizations now have a clearer understanding of

how these rates affect valuations. The sector also has high levels of private equity activity and there is growing pressure from LPs [limited partners] to divest assets and return capital.

**Are there any segments of the aftermarket that are more in demand when it comes to dealmaking? Which segments are ripe for investment?**

We've observed a shift in aftermarket M&A from enthusiast-driven businesses to those focused on service, repair, collision and replacement parts. This trend, which began in 2023, has continued into this year. The focus has increasingly been on segments that are essential to keeping vehicles on the road, particularly as the average age of vehicles increases. These segments are proving to be ripe for investment, as they offer more stable and predictable returns in a market where consumers are spending more on maintaining their existing vehicles rather than purchasing new ones.

**What is your outlook for M&A and dealmaking for the rest of this year and the next?**

The outlook for M&A and dealmaking is strong, especially in the latter half of 2024. We expect this momentum to carry into the next year, with continued activity as companies adapt to the current economic conditions and look for strategic opportunities to grow.

**When it comes to some of the key reasons behind financial asset companies looking at aftermarket or even automotive companies, how much would you say is sharing of technology and innovation across assets an important reason?**

Typically, the focus in these deals is not so much on sharing technology and innovation across assets. Instead, it's more about value creation in a fragmented market. Financial asset companies see significant gains through add-on acquisitions, which allow for more efficient operations and the consolidation of facilities. This approach creates value by streamlining operations and enhancing economies of scale, rather than through technological synergies.

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